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A REVIEW OF MULTILATERAL DEVELOPMENT BANK ENVIRONMENTAL POLICIES

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL
DEVELOPMENT INSTITUTIONS AND FINANCE

OF THE

COMMITTEE ON
BANKING, FINANCE AND URBAN AFFAIRS
HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

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A REVIEW OF MULTILATERAL DEVELOPMENT BANK ENVIRONMENTAL POLICIES

WEDNESDAY, FEBRUARY 26, 1986
House of Representatives,
Subcommittee on International
Development Institutions and Finance,
Committee on Banking, Finance and Urban Affairs,
Washington, DC.

The subcommittee met at 10:05 a.m., pursuant to notice, in room 2222, Rayburn House Office Building, Hon. Stan Lundine (chairman of the subcommittee) presiding.

Present: Chairman Lundine; Representatives Levin and McCandless.

Chairman **Lundine**. Good morning.

The hearing of the International Development Institutions and Finance Subcommittee will come to order.

I would like to welcome you here this morning. Today we intend to discuss the environmental policies of the multilateral development banks. We want to encourage them to continue their efforts to assess and limit the adverse environmental effects of lending projects.

In the last Congress this subcommittee under the chairmanship of Representative Jerry Patterson held numerous hearings on such effects and issued a comprehensive list of recommendations in December 1984. Those recommendations were designed, first, to facilitate the MDB's in the early detection of potential environmental damage from a planned project and, second, to encourage initiation of projects intended to benefit the environment in developing countries.

The major purpose of this morning's hearing is to find out what progress has been made by the Treasury Department and the World Bank and the regional development banks in implementing these recommendations.

It is our hope that significant progress has been made. If not, we want to find out why not and what should be done next. We fully recognize that protecting the environment during the process of development is a long-term goal, and we are prepared to work with the banks toward that goal on a long-term basis.

I am keenly aware of the injurious consequences possible when industrial development proceeds without adequate consideration for its effect both on natural resources and people.

My own congressional district has one of the highest concentrations of toxic waste sites in the country. I know the impact that this has had on individuals' health and occupations and their very lives.

The developing countries have an opportunity to avoid some of the unfortunate experiences of our own country during our industrialization. It is important that they not miss this chance.

The need for economic development is clear. The call for development that is environmentally sound is becoming stronger. These two considerations can and must work together. In the long run they are dependent on one another.

The Banks, because of their heavy involvement in development projects, are in an excellent position to encourage the responsible conservation of natural resources which is necessary for future growth.

I have been encouraged by the signs of increasing sensitivity to environmental issues at the Treasury and the MDB's, and I look forward to more evidence that environmental review procedures are having concrete results in actual projects executed.

I would like to assure you that, in my view, concern with the environmental effects of lending is more than a passing fad. It is and must be a crucial element of development policy.

With us this morning we have from the Treasury Department, Jim Conrow, the Deputy Assistant Secretary for Developing Nations. Mr. Conrow will give us an overview of the compliance to date of the development Banks with the 1984 recommendations of the subcommittee.

To participate in our panel discussion we have Bruce Rich, senior staff attorney at the Environmental Defense Fund, and Barbara Bramble, director of international programs at the National Wildlife Federation, both of whom were active in the initial development of the subcommittee's recommendations. They will give us an assessment of the banks' environmental progress.

Robert Blake, a senior fellow at the International Institute for Environment and Development and a former Ambassador to Mali, will give us his perspective on the relationship between international debt and environment.

Robert Repetto, senior economist with the World Resources Institute will discuss the long-term economic consequences of environmental deterioration.

I want to thank all the witnesses in advance for being here and sharing your views.

Mr. Conrow, it is a delight again to have you before this subcommittee.

Prior to your proceeding, I know that the ranking Member, Congressman Doug Bereuter, has an opening statement and I will make that statement a part of the record at this point.

Congressman Bereuter is also on the Foreign Affairs Committee and there have been some other developments than MDB's in the last few days that have him occupied otherwise this morning, but I know he is very interested, as are the other members of the subcommittee, in this subject.

[The opening statement of Representative Bereuter follows:]

STATEMENT OF REPRESENTATIVE DOUG BEREUTER

Mr. Chairman, I would like to welcome today's distinguished witnesses, many of whom have testified before our Subcommittee during the previous hearings on this important topic. I anticipate a very thorough discussion and hope we can bring into focus the primary objective of responsible MDB activity within our environment.

I cannot overstate the importance of this issue. A recent editorial in my state's largest newspaper, the Omaha World Herald, noted that oil depletion, soil erosion, shrinking forests, and other environmental problems are a greater threat than the possibility of armed aggression in certain parts of the world.

The financial institutions with which this Subcommittee works shape development activities throughout the world. The MDB's have an even greater influence in the Third World where environmental problems are particularly acute due to political, geographical, and demographic factors.

Mr. Chairman, I recall Mr. Conrow's testimony in June of 1983 when he noted himself that he was largely unaware of environmental concerns in MDB programs. We have come a long way since then, but our work is not yet finished. Effective and efficient implementation of this Subcommittee's recommendations should continue. Our job today is to monitor this progress.

Although some environmental staff positions have been created within the relevant institutions, the success of our policy initiatives rests firmly upon an organization-wide commitment towards the goal of environmental responsibility. The payoff will not be immediate, but the long-run dividends accruing from such a pro-active stance will be substantial.

Mr. Chairman, I am looking forward to the testimony of our knowledgeable witnesses.

Thank you.

Chairman LUNDINE. Mr. Conrow, I deeply appreciate your being here. As usual your entire statement will be made a part of the record and please proceed as you wish.

STATEMENT OF HON. JAMES W. CONROW, DEPUTY ASSISTANT SECRETARY OF THE TREASURY FOR DEVELOPING NATIONS, ACCOMPANIED BY PAUL GLASOE, BUREAU OF OCEANS AND INTERNATIONAL ENVIRONMENTAL AND SCIENTIFIC AFFAIRS, DEPARTMENT OF STATE

Mr. CONROW. Thank you very much, Mr. Chairman, for the opportunity to appear before the subcommittee to discuss the environmental aspects of multilateral development bank activities.

The staff report issued by the committee in December 1984 was a benchmark in the efforts of your subcommittee and the administration to encourage constructive change in these aspects.

Your report included 19 recommendations, most of which we endorsed without qualification.

I would like to highlight four areas today.

First, where we stand with regard to organizational and procedural recommendations in each bank.

Second, the recommendations which were directed to all the banks regarding training, environmentally beneficial projects and the inclusion of environmental and health ministers and nongovernmental organizations in the activities of the banks.

Third, the elements of the recommendations which we have deferred.

And, finally, a discussion of next steps, essentially where do we go from here.

First, let me take up organizational and procedural recommendations.

Several of the recommendations in your report dealt with the organizational matters and were directed to the U.S. agencies as well as to the development Banks.

Since late 1984 the Treasury Department has been working closely with the State Department Bureau of Oceans and International Environmental and Scientific Affairs.

The State Department will be elaborating on the Bureau's activities, but I would like to say simply that State has brought a welcomed dose of expertise to our overall effort. We have found their initiative and advice adds to the effectiveness of U.S. policy.

The Bureau staff participates in the interagency working group on multilateral assistance where each project is reviewed by the Treasury and State Department along with the Agency for International Development, the U.S. Trade Representative, the Federal Reserve Board, and the Departments of Agriculture, Interior, Labor, and Commerce.

Discussion of the environmental aspects of projects has become a regular feature of the working group led by the staff of the State Department.

An important aspect of the increased attention to these issues by U.S. agencies is the inclusion of environmental factors in our early warning system. When a project first appears in the project pipeline of the banks, the U.S. Embassy is sent a cable soliciting information about a range of policy issues.

About a year ago the environmental aspects were added to the system and responses from the field are giving us a basis for early discussions with the development Banks.

Within the Banks themselves there has been some progress toward organizational changes, although not entirely along the lines anticipated in your recommendations.

The African Development Bank has an environmental specialist who has begun a program of staff training and has recommended bank technical assistance support to prepare natural resource profiles for borrowing countries.

While there is a greater awareness of the environmental dimension in Bank project proposals, measures to deal with environmental aspects are not as well designed as we would hope.

For example, while the difficult resettlement and watershed management aspects of the La Mape Dam in Cameroon were identified when the project was put forward for approval last May, we would have preferred that plans to cope with these aspects would have been completed and funding identified.

While not designating an environmental coordinator, the Inter-American Development Bank established an internal committee on the environment in November 1983. I will be reporting to you more fully on its activities in the very near future, but I would simply like to state today that this arrangement has the potential to address your concerns.

Currently the Bank's internal procedures are not as thorough as you and I might hope, but the Bank is making significant efforts to improve its effectiveness.

We will be continuing to monitor the activities of the Inter-American Development Bank Committee on the Environment in the coming months and we will keep you informed.

Mr. Chairman, the World Bank has been perplexing. In many instances the Bank has performed well and in others the Bank's performance has been frustrating.

For example, a January $10 million IDA credit to Bangladesh for shrimp aquaculture included a component for shrimp hatcheries which will eventually be operated largely by the private sector.

The hatcheries are an important step toward relieving pressure on the offshore marine fisheries which are in danger of declining. The project also provided for using nongovernmental organizations to implement a component to strengthen cooperation and understanding between the local farming and fishing communities.

In a second project, a forthcoming $20 million IBRD loan to Malawi for fuelwood planting is well targeted to relieve pressures on the country's rapidly disappearing forest resources.

By contrast, Mr. Chairman, in December the Bank approved a $50 million loan to Malaysia to provide infrastructure for a land settlement project which will lead to clearing 20,000 hectares of tropical forests. In 1958, 80 percent of peninsular Malaysia was forested. Now less than 49 percent is forested.

While in many respects land settlement projects in Malaysia have been successful, I find troubling the absence of an effective environmental assessment process that can be used to establish a land use plan which will effectively delineate tropical forest reserves.

In another project in October the Bank provided Indonesia a $32 million loan to finance the procurement and distribution of draft livestock in support of the transmigration program in Sumatra and Sulawesi.

In addition to forest clearing, the livestock are undoubtedly going to be used to prepare fields for crops such as rice. But the soils on these two islands generally cannot sustain annual cropping, so that in a year or two the farmer will clear more forests for his crop. The result will be more extensive deforestation with relatively meager increases in agriculture production.

While the overall picture in the World Bank remains mixed, there has been some encouraging movement. Last November the Bank began an internal review of natural resource use problems that have arisen in past Bank projects, especially in agriculture and energy projects. The review is expected to last about 2 years and may yield significant changes in policies and procedures.

While the timeframe appears extended, the subject is vast and research by external experts will play an important role. We will monitor progress and keep the subcommittee informed.

While the subcommittee did not direct their recommendations specifically to the Asian Development Bank, I can report that a Board review of environmental policies and procedures in January confirmed two steps which I believe are useful and important.

First, the responsibilities of the two environmental specialists of the Bank have been redefined so that more of their efforts can be directed toward the environmentally sensitive sector of energy and agriculture; and

Two, the Bank's useful technical assistance programs to conduct regional planning studies which emphasize the use of natural resources will be expanded.

The study of the Han River Basin in Korea, begun in 1981, has already led to several projects to control water pollution.

In other respects, the performance of the Asian Development Bank continues to be mixed. Nepan, which has had severe deforestation and soil erosion problems was the beneficiary of two contrasting projects in October 1985.

A $14 million for livestock development included provision for livestock exclusion areas where overgrazing has been a severe problem and for selection of fodder crops to improve nutrition and provide soil cover.

By contrast a $20 million loan for rural development in the Seti zone of Nepal is likely to lead to further deforestation in the southern portion of the region and to the expansion of cropping without terracing in the hilly northern portion, both adding to the soil erosion problems.

Let me turn now, Mr. Chairman, to the subject of training.

Beyond organizational matters, your subcommittee's report also suggested that the World Bank's Economic Development Institute might usefully strengthen its training efforts in the environmental area.

The Institute is offering about 90 courses in all parts of the world during the current academic year. On the basis of the Institute's published catalog, we judged that environmental considerations might usefully be included in about one-third of the courses.

In recent months we have had several meetings with the staff of the Institute, and it is apparent that the course offerings are heavily oriented toward reaching developing country officials who analyze or decide economic policies. In this context, environmental considerations might be introduced most effectively by including articulate officials of agencies responsible for environmental matters in mixed courses with economic policy officials.

In addition, appropriate course materials and group discussion leaders with environmental backgrounds could make useful contributions.

We have not reached firm conclusions, but at this stage we are considering a recommendation that the Institute hire a consultant to review systematically all courses, to recommend appropriate course participants in environmental fields and to suggest appropriate course materials and lecturers.

Let me now turn to the subject of environmentally beneficial projects.

A third important area in which the subcommittee has made recommendations is the encouragement of environmentally beneficial projects in the MDB's. As I mentioned, and as is widely recognized, the Banks currently do environmentally beneficial projects. I hope that in our concern about some projects we don't lose sight of the positive aspects of development Bank activities.

In deciding what types of environmentally beneficial projects to propose systematically to the Banks, we have adopted one of the suggestions in your report and are discussing irrigation management with the World Bank's staff.

A second topic we are pursuing cuts across several of the suggestions your report put forward. In September 1985 a Washington-based nongovernmental organization, World Resource Institute, issued a report containing a large number of ideas for project activity that might be undertaken in 56 developing countries. Included are suggestions for fuelwood projects, watershed management projects, industrial timber development, and forest preservation proposals, as well as institution building.

We are planning to discuss these ideas with the World Bank to determine whether they offer a basis for project activities. If the results of our conversations with the Bank are promising, we expect to extend our discussions to the regional development banks. We will keep the committee informed of progress on these subjects.

Let me now turn to the subject of participation of ministers and nongovernmental organizations.

In a fourth area your report recommends greater involvement of the Environment and Health Ministers and nongovernmental conservation and indigenous peoples' organizations in project planning and implementation.

The reports we have submitted to the committee indicate that the Banks were supportive of these ideas in principle, but were cautious with regard to systemic implementation. I believe this is an area where we can make greater efforts, and I am asking our Executive Directors of the Banks to propose that appraisal reports for projects in sensitive sectors include specific statements describing either the role of such Ministers and organizations in project preparation or why such a role was unnecessary.

Mr. Chairman, let me now touch on the deferred recommendations.

Three of the recommendations in your report have seemed to us to be inappropriate to implement at this time.

First, the recommendation that we earmark a fixed proportion of MDB lending programs for environmental projects does not seem to us to be a positive approach.

Setting dollar denominated targets in our experience has been a poor management technique in the development banks. Success should be measured by quality and not quantity. While we want to encourage environmentally sound and economically beneficial projects, we do not believe targetry will prove effective in the end.

Second, we would prefer not to establish firm criteria for supporting or opposing projects. We are confident that the senior managers of the Banks have a genuine commitment to sustainable development and that our persistence in calling questionable projects to their attention will yield the changes we are all seeking.

Furthermore, the Banks in designing projects need to pursue a range of objectives, some of which may be in conflict with sound environmental practices. Compromise may be necessary.

I have already mentioned the land settlement projects in Malaysia have led to deforestation. Some of these projects have also lifted a sizeable number of the landless rural poor into the middle class of that country. Rigid criteria may compromise other objectives, such as poverty alleviation, which we expect the development Banks to pursue.

Third, I continue to believe that a fixed requirement for a generalized annual report is unnecessary. We have been keeping you informed of developments regularly and we will continue to do so.

But annual reporting requirements too often outlive their utility, and we propose to defer this recommendation.

Mr. Chairman, let me now close with where we go from here.

I believe that the work that this subcommittee started in June 1983 is having a salutary effect on the Banks. Their response has not always been as rapid nor as complete as we may have hoped, but your concerted efforts to maintain a constructive approach is yielding benefits.

There is awareness of broad concern and genuine desire in the Banks to support sustainable development in terms of environmentally sound and economically productive projects.

I see two major tasks before us in the coming months.

The first is to focus the discussion about environment and development on concrete issues, specifically on the more difficult types of projects associated with agriculture in tropical regions, impoundments of rivers and penetration roads into relatively uninhabited regions.

In order to give the Banks a clearer sense of policy direction, I believe it is time to make a concerted effort to engage other donor countries in a discussion of the problems and to encourage them to provide their Executive Directors in the Banks with policy guidance.

I personally have begun this process in meetings I attended in January and February, and my clear impression was that my counterparts in other governments are going to look into these aspects of Bank activities.

I plan to continue the dialog in the coming months and foresee that we will be able to arrive at a consensus which will furnish the banks with clear views from major shareholders.

We think it may also be desirable to begin a more direct dialog with selected developing countries on the environmental aspects of their national development activities. We will be discussing this further with the State Department in the coming weeks.

The second task before us in the months ahead is to continue to raise these environmental concerns within the banks at senior levels, both in the context of specific projects and in broader policy terms where we will raise such issues as the role of nongovernmental organizations in development activities.

These discussions will serve the dual purpose of conveying our continuing concern and of providing an opportunity to engage directors representing other countries in the dialog which can lead to broad consensus for change.

I am prepared to commit, Mr. Chairman, the Treasury Department and our Executive Directors to such a discussion.

Mr. Chairman, I believe we are half way to achieving strengthened environmental policies and procedures in the Bank. Much remains to be done, but the task of drawing attention to the issue is now completed. We should continue our efforts in a responsible and constructive manner. We need to be clear, we need to be specific and we need to be constant. I know we have your support and that of your committee in this effort.

Mr. Chairman, I stand prepared to answer any questions that you might have. Thank you.

[The prepared statement of Mr. Conrow follows:]

STATEMENT BY
JAMES W. CONROW
DEPUTY ASSISTANT SECRETARY OF THE TREASURY
FOR DEVELOPING NATIONS
BEFORE
THE SUBCOMMITTEE ON INTERNATIONAL DEVELOPMENT INSTITUTIONS
AND FINANCE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
FEBRUARY 26, 1986

Thank you, Mr. Chairman, for the opportunity to appear before the Committee to discuss the environmental aspects of multilateral development bank activities.

The staff report issued by the Committee in December 1984 was a benchmark in the efforts of your Committee and the Administration to encourage constructive change in these aspects. Your report included nineteen recommendations, most of which we endorsed without qualification.

I would like to highlight four areas today:

-- where we stand with regard to organizational and procedural recommendations in each bank,

-- the recommendations which were directed to all the banks regarding training, environmentally beneficial projects and the inclusion of Environment and Health Ministers and nongovernmental organizations in the activities of the banks,

-- the elements of the recommendations which we have deferred,

-- and finally, a discussion of next steps -- where we go from here.

Organizational and Procedural Recommendations

Several of the recommendations in your report dealt with organizational matters and were directed to U.S. agencies, as well as the development banks. Since late 1984, the Treasury Department has been working closely with the State Department Bureau of Oceans and International Environmental and Scientific Affairs. The State Department will be elaborating on the Bureau's activities, but I would like to say simply that State has brought a welcome dose of expertise to our overall effort. We have found their initiative and advice adds to the effectiveness of U.S. policy.

The Bureau staff participates in the inter-agency Working Group on Multilateral Assistance where each project is reviewed by the Treasury and State Departments, the Agency for International Development, the United States Trade Representative, the Federal Reserve Board and the Departments of Agriculture, Interior, Labor and Commerce. Discussion of the environmental aspects of projects has become a regular feature of the Working Group, led by the staff of the State Department.

An important aspect of the increased attention to these issues by U.S. agencies is the inclusion of environmental factors in our early warning system. When a project first appears in the project pipeline of the banks, the U.S. embassy is sent a cable soliciting information about a range of policy issues. About a year ago, the environmental aspects were added to the system, and responses from the field are giving us a basis for early discussions with the development banks.

Within the banks, there has been some progress toward organizational changes, although not entirely along the lines anticipated in your recommendations. The African Development Bank has an environmental specialist who has begun a program of staff training and has recommended Bank technical assistance support to prepare natural resource profiles for borrowing countries. While there is a greater awareness of the environmental dimension in Bank project proposals, the measures to deal with environmental aspects are not as well designed as we would hope.

For example, while the difficult resettlement and watershed management aspects of the La Mape dam in the Cameroons were identified when the project was put forward for approval last May, we would have preferred that plans to cope with these aspects would have been completed and funding identified.

While not designating an environmental coordinator, the Inter-American Development Bank established an internal Committee on the Environment in November 1983. I will be reporting to you more fully on its activities in the near future, but I would simply like to state today that this arrangement has the potential to address your concerns. Currently, the Bank's internal procedures are not as thorough as you and I might hope, but the Bank is making signifcant efforts to improve its effectiveness. We will be continuing to monitor the activities of the IDB Committee on the Environment in the coming months, and we will keep you informed.

The World Bank has been perplexing. In many instances, the Bank has performed well. In others, Bank performance has been frustrating.

For example, a January $10 million IDA credit to Bangladesh for shrimp aquaculture included a component for shrimp hatcheries which will eventually be operated largely by the private sector. The hatcheries are an important step toward relieving pressure on the off-shore marine fisheries which are in danger of declining. The project also provided for using non-governmental organizations to implement a component to strengthen cooperation and understanding between the local farming and fishing communities. In a second project, a forthcoming $20 million IBRD loan to Malawi for fuelwood planting is well-targetted to relieve pressure on the country's rapidly disappearing forest resources.

By contrast, in December, the Bank approved a $50 million loan to Malaysia to provide infrastructure for a land settlement project which will lead to clearing 20,000 hectares of tropical forest. In 1958, eighty percent of peninsular Malaysia was forested; now, less than 49 percent is forested. While in many respects land settlement projects in Malaysia have been successful, I find troubling the absence of an effective environmental assessment process that can be used to establish a land use plan which will effectively delineate tropical forest reserves. In another project in October, the Bank provided Indonesia a $32 million loan to finance the procurment and distribution of draft livestock in support of the transmigration program in Sumatra and Sulawesi. In addition to forest clearing, the livestock are undoubtedly going to be used to prepare fields for crops, such as rice. But the soils on these two islands generally cannot sustain annual cropping, so that in a year or two the farmer will clear more forest for his crop. The result will be more extensive deforestation, with relatively meager increases in agricultural production.

While the overall picture in the Bank remains mixed, there has been some encouraging movement. Last November, the Bank began an internal review of natural resource use problems that have arisen in past Bank projects, especially in agriculture and energy projects. The review is expected to last about two years and may yield significant changes in policies and procedures. While the timeframe appears extended, the subject is vast and research by external experts will play an important role. We will monitor protress and keep the Committee informed.

While the Committee did not direct a recommendation specifically to the Asian Development Bank, I can report that a Board review of environmental policies and procedures in January confirmed two steps which I believe are useful and important:

-- the responsibilities of the two environmental specialists of the Bank have been re-defined so that more of their effort can be directed toward the environmentally sensitive sector of energy and agriculture; and

-- the Bank's useful technical assistance programs to conduct regional planning studies which emphasize the use of natural resources will be expanded. The study of the Han River Basin in Korea, begun in 1981, has already led to several projects to control water pollution.

In other respects, the performance of the Bank continues to be mixed. Nepal, which has had severe deforestation and soil erosion problems, was the beneficiary of two constrasting projects in October 1985. A $14 million loan for livestock development included provision for livestock exclusion areas where overgrazing has been a severe problem and for selection of fodder crops to improve nutrition and provide soil cover. By contrast, a $20 million loan for rural development in Seti zone of Nepal is likely to lead to further deforestation in the southern portion of the region and to the expansion of cropping, without terracing, in the hilly northern portion -- both adding to the soil erosion problem.

Training

Beyond organizational matters, your Committee's report also suggested that the World Bank's Economic Development Institute might usefully strengthen its training efforts in the environmental area. The Institute is offering about ninety courses in all parts of the world during the current academic year. On the basis of the Institute's published catalogue, we judged that environmental considerations might usefully be included in about one-third of the courses.

In recent months, we have had several meetings with the staff of the Institute. It is apparent that the course offerings are heavily oriented toward reaching developing country officials who analyze or decide economic policies. In this context, environmental considerations might be introduced most effectively by including articulate officials of agencies responsible for environmental matters in mixed courses with economic policy officials. In addition, appropriate course materials and group discussion leaders with environmental backgrounds could make useful contributions.

We have not reached firm conclusions. But, at this stage, we are considering a recommendation that the Institute hire a consultant to systematically review all courses, to recommend appropriate course participants in environmental fields, and to suggest appropriate course materials and lecturers.

Environmentally Beneficial Projects

A third important area in which the Committee has made recommendations is the encouragement of environmentally beneficial projects in the banks. As I mentioned -- and as is widely recognized -- the banks currently do environmentally beneficial projects. I hope that, in our concern about some projects, we don't lose sight of the positive aspects of development bank activities.

In deciding what types of environmentally beneficial projects to propose systematically to the banks, we have adopted one of the suggestions in your report and are discussing irrigation management with the World Bank staff. A second topic we are pursuing cuts across several of the suggestions your report put forward. In September, 1985, a Washington-based non-governmental organization, the World Resources Institute, issued a report containing a large number of ideas for project activity that might be undertaken in 56 developing countries. Included are suggestions for fuelwood projects, watershed management projects, industrial timber development and forest preservation proposals, as well as institution building. We are planning to discuss these ideas with the World Bank to determine whether they offer a basis for project activities. If the results of our conversations with the Bank are promising, we expect to extend our discussions to the regional development banks. We will keep the Committee informed of progress on these subjects.

Participation of Ministers and Nongovernmental Organizations

In a fourth area, your report recommends greater involvement of Environment and Health Ministers and nongovernmental conservation and indigenous peoples' organizations in project planning and implementation. The reports we have submitted to the Committee indicate that the banks were supportive of these ideas, in principle, but were cautious with regard to systematic implementation. I believe this is an area where we can make greater efforts and I am asking our Executive Directors in the banks to propose that appraisal reports for projects in sensitive sectors include specific statements describing either the role of such Ministers and organizations in project preparation or why such a role was unnecessary.

Deferred Recommendations

Three of the recommendations in your report have seemed to us inappropriate to implement at this time. First, the recommendation that we earmark a fixed proportion of MDB lending programs be earmarked for environmental projects does not seem to us to be a positive approach. Setting dollar denominated targets, in our experience, has been a poor management technique in the development banks. Success should be measured by quality, not quantity. While we want to encourage environmentally sound and economically beneficial projects, we do not believe targetry will prove effective in the end.

Second, we would prefer not to establish firm criteria for supporting or opposing projects. We are confident that the senior managers of the banks have a genuine commitment to sustainable development and that our persistence in calling questionable projects to their attention will yield the changes we are all seeking. Furthermore, the banks, in designing projects, need to pursue a range of objectives, some of which may be in conflict with sound environmental practices. Compromise may be necessary. I have already mentioned that land settlement projects in Malaysia have led to deforestation. Some of these projects have also lifted a sizable number of the landless, rural poor into the middle class of that country. Rigid criteria may compromise other objectives, such as poverty alleviation, which we expect the banks to pursue.

Third, I continue to believe that a fixed requirement for a generalized annual report is unnecessary. We have been keeping you informed of developments regularly and we will continue to do so. But annual reporting requirements too often outlive their utility, and we propose to defer this recommendation.

Where We Go From Here

I believe that the work that this Committee started in June, 1983 is having a salutary effect on the banks. Their response has not always been as rapid nor as complete as we may have hoped, but your concerted effort to maintain a constructive approach is yielding benefits. There is awareness of broad concern and a genuine desire in the banks to support sustainable development, in terms of environmentally sound and economically productive projects.

I see two major tasks before us in the coming months. The first is to focus the discussion about environment and development on concrete issues -- specifically, on the more difficult types of project associated with agriculture in tropical regions, impoundments of rivers and penetration roads into relatively uninhabited regions. In order to give the banks a clearer sense of policy direction, I believe it is time to make a concerted effort to engage other donor countries in a discussion of these problems and to encourage them to provide their executive directors in the banks with policy guidance. I have begun the process in meetings I attended in January and February, and my clear impression was that my counterparts in other governments are going to look into these aspects of bank activities. I plan to continue the dialogue in the coming months and foresee that we will be able to arrive at a consensus which will furnish the banks with clear views from major shareholders. We think it may also be desirable to begin a more direct dialogue with selected developing countries on the environmental aspects of their national development activities. We will be discussing this further with the State Department in the coming weeks.

The second task before us in the months ahead is to continue to raise these environmental concerns within the banks at senior levels -- both in the context of specific projects and in broader policy terms, where we will raise such issues as the role of nongovernmental organizations in development activities. These discussions will serve the dual purposes of conveying our continuing concern and of providing an opportunity to engage directors representing other countries in the dialogue which can lead to a broad consensus for change. I am prepared to commit the Treasury Department and our Executive Directors to such discussion.

Mr. Chairman, I believe we are half way to achieving strengthened environmental policies and procedures in the banks. Much remains to be done, but the task of drawing attention to the issues is now completed. We should continue our efforts in a responsible and constructive manner. We need to be clear; we need to be specific; and we need to be constant. I know we have your support and that of your Committee in this effort.

Thank you.

Chairman **Lundine**. Well, you certainly do have our support, and I thank you very much for a quite comprehensive statement.

Incidentally understand that there is a State Department statement, and it will be entered into the record at this point.

[The statement follows:]

Statement by the Department of State
for inclusion in the Record of Hearing
"Review of MDB Environmental Policies"
Subcommittee on International Development
Institutions and Finance
February 26, 1986.

The Department is pleased to be able to provide this statement to the Subcommittee in relation to implementation of the recommendations the Subcommittee made in late 1984 concerning the environmental performance of the multilateral development banks.

As way of introduction, the Department fully supports the goal of the Subcommittee to assure that sustainable, ecologically sound development be a basis for international development assistance efforts. Indeed, the Department believes that in order to be sustainable, development has to be based on sound ecological principles and that these principles must be closely and carefully integrated into the development process.

As the Subcommittee is aware, the Department of the Treasury has the lead responsibility within the US Government for developing and implementing Administration policy towards the multilateral development banks. At the same time, however, other agencies have a definite role to play in the process, a role which was recognized in the first of the Subcommittee's 1984 recommendations in relation to the environmental implications of MDB activities. The Department of State has for many years carried out an active international environmental program, and a substantial part of this effort has been devoted to issues related to rational and ecologically sound management of the world's scarce natural resources. The Department's leadership role in international efforts to address the major issue of tropical deforestation is just one example. We are pleased now to have been explicitly recognized as a key participant in the effort to improve the environmental performance of the MDBs, since this fits directly into the broader goal of the Department to foster sound, sustainable development in the Third World.

For clarification, it is perhaps worthwhile to explain briefly the organizational framework of the Department as it relates to international environmental issues. Leading the effort is the Assistant Secretary for the Bureau of Oceans and

International Environmental and Scientific Affairs (OES), John D. Negroponte. Richard Elliot Benedick is his Deputy Assistant Secretary directly responsible for environmental matters. Mr. Benedick, in turn, directs the activities of two offices: the Office of Environment and Health, and the Office of Food and Natural Resources. Day-to-day implementation of the Department's effort to work with Treasury on the question of the environmental implications of MDB activities falls within this latter office.

OES, of course, does not work in a vacuum. The Department of State, as Treasury, must grapple with a myriad of "non-environmental" issues every day, covering a whole range of political, economic, social, and assorted other issues around the globe. OES must thus interact and cooperate with the several regional bureaus in the Department, which oversee the conduct of the United States' bilateral relations with other countries. It must in addition coordinate particularly closely with the Bureau of Economic and Business Affairs, which deals with the wide range of economic, trade, and financial issues affecting our relations with the rest of the world, and which has responsibility in the Department for working with Treasury on overall U.S. policy toward the MDBs. Last, the Department must work closely with the many interested and directly involved officials of the Agency for International Development. This working relationship is sound and productive.

It should be stressed that these efforts are receiving support at the highest levels of the State Department. For example, the Acting Secretary of State joined with AID Administrator Peter McPherson just a few months ago in sending a personal cable to all Ambassadors and AID Mission Directors expressing personal interest in the subject of sustainable development and stressing the importance of all officials in these Embassies and Missions contributing what they appropriately could to encourage MDBs, other donors, and borrowing countries to move toward more environmentally conscientious development projects.

Last, we in the Department have what we believe are close and mutually supportive relations with the several non-governmental environmental organizations which have been playing an active role in this field. We have frequent and candid contact with several representatives of these groups. While they are often frustrated with the pace at which bureaucracy moves, we believe they appreciate that we are all working toward the same end and that we in the Department are serious about the issue and desirous of improvement.

To reiterate, the Department of State shares the concern of the Subcommittee in seeing environmental concerns carefully integrated into the planning and implementation of projects supported by the multilateral development banks. As other witnesses will be explaining in detail, while progress has been made and while there are some grounds for optimism over the long run, there is still much to be done, and the effort of the Congress, the Administration, and the non-governmental organizations and the many citizens they represent should not slacken if we are to assure ultimate achievement of that goal.

How will achievement of that goal be hallmarked? The most obvious way will be when all MDB projects evidence a sound recognition of and approach to environmental isssues they raise and the projects in the aggregate evidence a responsible and enlightened approach to the issue of management of the world's scarce natural resource base. In brief, project improvement from an environmental and resource management perspective is what we seek.

How can this goal be pursued?

In the first instance, as the Subcommittee recognized in the very first of its recommendations, it is essential for the Working Group on Multilateral Aid (WGMA) to continue to pay attention to environmental issues, and to seek, in the Subcommittee's words, to "institutionalize consideration of environmental issues as part of their deliberations on multilateral development bank activities". Yet this is not enough , since WGMA review of MDB projects basically comes at the end of the process, when the projects are ready to be presented to the Boards of the banks for approval. At this juncture, only the most egregiously ill-prepared or targetted projects can be, in effect, sent back to the drawing board, and then only if other countries join the U.S. in insisting on it. What is really needed is a more basic attempt to affect the process by which the banks develop and prepare the various projects so that when they come before the Executive Directors for final approval they will be properly prepared and fully responsible as regards environmental issues.

Turning to the specific ways in which the Department is cooperating with the Treasury Department in seeking to promote the goal of the Congress and implement the recommendations of the Subcommittee, the Department's effort can be divided into two categories: the first is those activities in which we support Treasury's lead role by providing supplementary or complementary effort; the second is that group of activities in which, by agreement with the Treasury, we have taken a lead role.

In the first category, the Bureau of Oceans and International Environmental and Scientific Affairs has, through the Office of Food and Natural Resources, been participating in the WGMA project review process and in other, more informal efforts to vet and influence specific projects of the MDBs from an environmental and resource management point of view. We have had full cooperation and support of the Treasury Department in this effort. At the same time, however, the limitation on the effectiveness of this approach to which reference has been made must not be lost sight of. It is not realistic to put all our eggs in this basket, as the Subcommittee is obviously quite aware, as witness its 18 recommendations following the first one dealing with the WGMA process.

The Department also has been cooperating closely with the Treasury Department in several other efforts related to the environmental performance of the MDBs. One specific one is participation with Treasury officials in the series of meetings arranged with the Inter-American Development Bank's Committee on the Environment, a series of very informative and useful meetings which highlighted the strengths and current limitations of the Committee's operations.

There have been two subjects on which the Department has been taking the lead. The first relates to the Subcommittee's 12th recommendation dealing with "beneficial and resource rehabilitation projects". At the outset it must be admitted that we have not progressed as far as we would have liked to in this very important area. The time it took to gear up to the overall effort and the rather limited resources which we are able to devote to all related activities combined are at least partial explanations. But we are moving in what should be useful and productive ways. First, we are in the process of engaging staff of the World Bank in a dialogue on issues related to the design and management of irrigation projects. The importance of increasing agricultural production in many parts of the developing world and the key role irrigation will play in this process led to the choice of this subject from the many which the Subcommittee mentioned as examples. It is premature to state what the outcome of this dialogue will be, but we expect it will lead to the identification of specific constraints to environmentally sound irrigation projects which it may then prove useful to seek ways to overcome, and examples of projects or project components which could prove beneficial for more systematic incorporation in irrigation schemes in one or more parts of the world.

The second "beneficial projects" subject we have chosen and are on the verge of exploring with the World Bank is tropical forests. The Subcommittee is certainly aware of the recent study by the World Resources Institute, with the cooperation of the World Bank, AID and the UN Development Program, a study which led to an investment strategy which has subsequently been incorporated by the Food and Agricultural Organization in its "Tropical Forestry Action Plan." We will explore with the World Bank specific aspects of the identified investment priorities and opportunities to see what the Bank plans and what might in addition usefully be done.

In both these areas (irrigation and tropical forests), and in the others under this rubric which we hope to pursue in the future, it goes without saying that while we may start the dialogue with the World Bank, it is important for all multilateral donors to be involved. We will thus be engaging the other MDBs on these themes in the future as well. Donor coordination is easy to talk about, but hard to effect, and it is not only important that all donors pay heed to the need for environmentally beneficial projects, but that they also work cooperatively in pursuing the generally agreed strategies and complementary projects.

The other subject on which the State Department has taken the lead role, is examining the programs of the World Bank's Economic Development Institute. Officials from the State and Treasury Departments have held a series of meetings with professionals from the EDI representing a variety of disciplines, ranging from agricultural development to health. Based on these often very candid sessions, we have concluded, as Mr. Conrow presaged in his January 17 letter to the Subcommittee, that what is probably most desireable is not a single new course or component on natural resource management, but a carefully thought-out program to integrate environmental and resource management issues into a variety of the existing and planned courses and seminars of the EDI. This does not say that a separate component on resource planning and program development is not desireable, but merely that we believe a more integrated approach is preferable, This subject is highly complex, involving as it does most of the professional divisions of the Institute and possibly raising financial and/or personnel resource questions. We and Treasury will be pursuing it with the World Bank in the near future and hope to be able to report some results to the Subcommittee before too long. Until this subject has been examined further and various recommendations and options discussed with EDI management, we agree with Treasury that it is premature to approach other donors or CIDIE members for additional funding support.

One last area on which we would like to report is not in direct response to the Subcommittee's recommendations, but it is certainly in general accord with the goal they all are directed toward. The subject is the importance of obtaining the support of other developed country donors in the campaign to move the MDBs toward more environmentally sound development projects.

The Department has long believed that it was quite important to obtain the support of other key donors in this effort, and we sought to lay the groundwork for that process in the cable from the Acting Secretary and the AID Administrator to which reference was made earlier. As we have heard from representatives of non-governmental environmental organizations, and directly from officials of some European donor countries, several of these countries are also concerned with the importance of improved MDB performance and willing to join the US in pressing that goal. However, they appear prepared to act only in response to specific gestures of US leadership.

To make a long story short, we will be joining the Treasury Department in a coordinated effort to obtain the active support of other donor nations and plan to supplement the approaches Treasury officials are making in the G-6 with approaches via diplomatic channels and in multilateral organizations. It is too early to state what results this effort will bring, but it is clear that at least some of the other donors are quite sympathetic to the goal we have been discussing and we hope that we can convince them that the objectives the Subcommittee and we see as supporting this goal are worth pursuing in a coordinated and mutually supportive manner.

In conclusion, the Department of State is very supportive of the goal of promoting truly sustainable development and desirous of encouraging the multilateral development banks to become even more valuable partners in the process than they are already. Progress is definitely being made. Yet it is a very difficult and slow process. There are many obstacles, not the least of which are the independence and closely guarded sovereignty of the developing countries and the not uncommon view that environmental considerations are luxuries which often cannot be "afforded." Yet good environmental planning is an essential part of a sound development process. We are convinced that the effort fully to integrate environmental and natural resource management considerations into development lending is worthwhile and will pay increasing dividends.

Chairman LUNDINE. To the best of your knowledge, have any projects of any of the MDB's been halted because upon review the environmental effects were detrimental?

Mr. CONROW. Mr. Chairman, at this point we are aware of one recent project in the Inter-American Development Bank.

Chairman LUNDINE. I hate to measure progress in terms of what you can hold up, and I would acknowledge that our environmental impact statements in the United States have probably been more complicated than they need be.

If I may be permitted an anecdote, I was talking to Senator Henry Jackson from Washington State, and he told me that he argued against the amendment striking the requirement for an environmental impact statement from the National Environmental Policy Act on the Senate floor.

He held up a piece of paper, and in his mind he said that he thought that an environmental impact statement was something that could be written on both sides of one piece of paper. And I told him at that time that we had a project in our congressional district that had an environmental impact statement that amounted to 17 volumes.

Now I am not trying to impose a standard that judges the commitment of the Banks to environmental quality on the basis of their producing 17-volume reports or whether projects are held up, but in your judgment overall, with the exception of the World Bank, because I want to come back to that, are they really engaging in environmental review of the quality you would like to see?

Mr. CONROW. Mr. Chairman, they are beginning that process.

Chairman LUNDINE. They are not there.

Mr. CONROW. They are certainly not there yet and we have got a lot of work to do.

Chairman LUNDINE. Progress has been achieved.

Mr. CONROW. They certainly know this is an issue of importance to the United States, and they know that we are continuing to push it, and we will.

The message that I want to deliver to the subcommittee today is that I think this next phase, which is going to be the most important one, is to broaden interest in the subject beyond just the United States to other donor countries. We need more of a consensus emerging in the development Banks so there are a greater number of shareholders who want to see all the Banks be more aggressive participants in this process.

Chairman LUNDINE. I am curious. Do you find that the attitude of the developing countries is an understanding that they want to avoid some of the environmental contamination that has been suffered by the more industrialized countries, or do they view environment and development as a tradeoff?

Mr. CONROW. It is really a mixed answer there, Mr. Chairman. The critical question that most of them are asking is the cost. If the environmental aspects can be brought to bear on a project at a minimum cost to them, there is an openness and a willingness on their part to do that.

But, unfortunately, many times they see the environmental aspects as a costly operation for them to which they have got limited resources, as we all know, in terms of dealing with their financing problems. So many times they do see it as a very direct competition between where they put their resources.

I think there is a lot we can do in terms of educating and talking to these officials. We are trying to explain to people that there is a very large gray area here where there are benefits and costs and you have to pull it all together and get some realistic assessment.

In the short run there may be some added expense, some added cost to a governmental effort, but the long-term benefits, even in economic terms, are much greater if you factor in environmental concerns early on.

Chairman LUNDINE. As your statement has indicated, the World Bank seems to be moving slowly in changing its procedures.

In addition to what you said in your statement, is there anything that can be done to encourage them to make greater progress?

Mr. CONROW. Treasury officials and our Executive Directors are going to be very aggressive with the World Bank. We have an opportunity in the IDA negotiations that are ongoing to raise this directly with the donors who are looking at the World Bank. I will be doing that continuously so that the World Bank management will see, hopefully, as time goes on that there is a commitment here in the administration as well as in the Congress for this effort as they follow these hearings.

They will see it from a continuous effort on the part of the Executive Director of the United States to pursue this matter in the Board and informally between our staffs and the Bank's staff as they look at the specific projects in detail.

In time we will indeed see improvements, but the World Bank, as you know, and I have become much more appreciative of, is a very slow moving operation and it certainly does take time to get things changed and moving in a direction that you are comfortable with and I am comfortable with in this area.

Chairman LUNDINE. In your view, is the environmental office in the World Bank understaffed?

Mr. CONROW. It probably is. Again, I have a difficulty in dealing with the question of personnel because the answer usually comes back in the form of enlarging the overall World Bank staff, and I think right now the institution is too large in personnel size. I would like to see a reallocation of personnel.

Chairman LUNDINE. What has been done and could be done to let the nongovernmental organizations in borrowing countries know of the environmental concerns that we have discussed? I don't think you mentioned that in your statement.

Mr. CONROW. Mr. Chairman, the first thing that needs to be done, and we have been talking to the environmental organizations, many of whom are here in the room, about the need to broaden the network into the developing countries themselves. I know there is a genuine interest on their part and I hope your subsequent witnesses will talk about how we get nongovernmental organizations in the developing countries more actively involved and aware of this process.

We are encouraging the development Banks themselves to work with these organizations more directly on specific project proposals. The Banks themselves come back and respond that they have to have a relationship with the government. So there has to be contact there.

We are going to be more aggressive on that. As I did say in my statement, one of the things that we are going to be insisting upon through our Directors is that there be a statement in the appraisal reports that go to the Board of Directors that says the extent to which the Ministries and non-governmental organizations have been involved in this project and if they have not, why not. We are going to be proposing to put that into the process.

But again, Mr. Chairman, the bottom line from my perspective, is that in order to really be effective in this area, we are going to need to have broader support from the shareholders of the institutions.

Chairman LUNDINE. Are you suggesting or intimating that some of our partners in sponsoring roles in the multilateral Banks are not particularly concerned about the environmental effects?

Mr. CONROW. They are concerned in the general sense, but I clearly get the impression that they are not aware that there is a problem. This is really a new area for them, and it is one that they are willing to go back and look into.

Let me just say at this point that one of the problems we have in looking at project specific issues and taking this sort of approach is we are one of the few countries in the world who actually monitors the projects themselves and track the performance and try to have input on a very detailed basis as to what goes on in these projects.

Most other countries don't do that. They have made a decision, a political decision that the institutions are well managed, and doing basically the things that they want to see. They go from replenishment meeting to replenishment meeting dealing with the broad issues, but they don't spend much time looking at the specifics in terms of the actual proposals that come out.

So on occasion there is a bit of a conflict when the United States shows up in these meetings and we are very detailed and very specific about individual projects and proposals where we think institutions have fallen down whether they be on economic grounds or environmental grounds.

The other donor countries are not aware of that kind of detail and they don't get themselves involved in that kind of detail. They approach these Banks in an entirely different way than we do. So we have got a lot of work to do.

Chairman LUNDINE. Mr. Levin, do you have any questions?

Mr. LEVIN. Just one. As I read your testimony it wasn't clear exactly where our expertise is in environmental issues that is brought to bear on the projects within the Banks. Where is it located?

Mr. CONROW. Within the U.S. Government?

Mr. LEVIN. Right.

Mr. CONROW. It is located in several places. We have just now, as I mentioned in the statement, brought the State Department and their Bureau, which is involved in this area, into the working group on multilateral aid, the WGMA process. We also have the AID people who are participants in the WGMA process bringing their operations more in line.

There are some ongoing discussions that we have, and that is why I didn't delve into it in any detail here in my testimony, between ourselves and AID in terms of how to enhance AID's participation in that process in this area. We don't have firm decisions yet on that.

Furthermore, within Treasury we have designated an economist who is rapidly becoming a non-economist and an environmentalist in Treasury to track these issues full time and that is his job.

We also have a loan review group in the Treasury Department whose sole job is to review loans which are being brought up to the Board for consideration, and they are becoming much more knowledgeable in the sorts of issues to look at when they consider individual projects.

Then, last, we are using our cable traffic, or our early warning system to work with the Embassies and AID missions out in the country in particular who have some experience in dealing with environmental questions that come before them in terms of the regular ongoing AID program and the U.S. relationship with these countries.

In my view, we are tapping all of the expertise that we have at our disposal and are trying to bring it to bear in this process.

Mr. LEVIN. Just quickly, with OES and State is there a person who has expertise in development projects and their impact on the environment?

Mr. CONROW. If I might, Mr. Levin, may I ask Paul Glasoe of the State Department to come up to the table and he can talk more specifically about what is available in the State Department?

Mr. LEVIN. I don't know. Maybe it is covered in the statement. This, Mr. Chairman, goes back to an issue that we have discussed before, and it is not new in the last few years, the problem of coordination within the U.S. Government.

Maybe we could do it quickly. We have other witnesses, and I am probably going to have to go out to a meeting. That was what this beeper I thought was about, but——

Chairman LUNDINE. We thought it was world war III. [Laughter.]

Mr. LEVIN. It doesn't work. That was a non-telephone call. I hope when they buzz me it is quicker.

But maybe quickly, is there somebody in OES who is an expert in development issues in general and environment in Third World countries in particular?

Mr. GLASOE. Mr. Levin, I am Paul Glasoe from the OES Bureau. As our statement points out, we have in the Bureau been involved in environment and development issues for quite some time. I have been in the Bureau for a year and I have some environmental background as well as economic.

The office director in the Office of OES which deals with these issues has been involved. His name is Bill Long, and he has been involved with these issues for decades. He worked with AID for many years and has been directing this office in the State Department.

So, I think the answer to your question is, we do have considerable background in environment and development issues. We have limited resources to devote to this specific issue that we are talking about today, but we do have considerable background in it.

Mr. Levin. That statement isn't in our documents, right? We don't have that statement, right, Mr. Chairman? That is the statement you referred to that is going to be entered into the record?

Mr. Glasoe. It is a written statement from the State Department, yes, sir, that basically says what I have said.

Mr. Levin. OK. I would hope at some other time we could look at this if there isn't time to do it today because I think one of the problems has been the lack of a clear focal point of responsibility for looking at these issues within the U.S. Government. We have this scattered responsibility problem for development generally.

When I was closer to OES I don't think there really was a person there whose job was to look at environmental impact of development projects in the Bank. AID has some expertise, but you are now just talking to them about how you interrelate with them. So we have kind of this age-old problem that has never been resolved as to who is supposed to be doing what. I think as a result it tends to fall through the cracks.

I don't think the answer is to take environmental issues and separate them out and have them drive all the answers to development issues. That is out of whack if you do that, if it is overdriven, the environment issue.

I think we have to be honest about it. I think this subcommittee was right. It was under-attended to in the past, and one of the reasons I think was because it wasn't clear, specially as to the Banks, who was supposed to do it and where the expertise is. More of the expertise was in AID, but it had no direct responsibility vis-a-vis the banks.

I think we need to really look at that in a frank way. I know the people you refer to. I have had the opportunity to know them and very much respect them. But I don't think it is fair to say their focal responsibility is to look at environmental issues as they relate to all of these projects. I mean that isn't what they are supposed to do with their time.

Mr. Conrow. If I may, Mr. Levin, I think you are touching on a very, very important issue. It is one that we are all grappling with because it goes well beyond just the environment, as you point out, and that has got to do with just resource allocations within the executive branch agencies for doing the work.

We at Treasury who have responsibility for the development banks clearly try to bring the expertise from elsewhere together in the interagency process. But being very candid about it, AID when you look at it, where is their priority? Their priority is their own program. And in terms of staffing and resources, that is what Mr. McPherson has to worry about.

Now he is trying to be more involved with the development banks, and we welcome that involvement. But it means that he has got to make administrative budget decisions as to resource allocations in terms of committing people, bodies, if you will, good people to do this kind of work and take them away from other areas.

Now that is a decision we are encouraging him to make, but that is one of the problems we are grappling with. And in the environment of budget constraints that we have, he is finding it very difficult in terms of his allocation of resources. That is true all throughout the Government right now where we are having more and more responsibilities thrust upon us at a time, as you well know, when the resources are being cut back.

So we are all trying to grapple with how do you do more things with less people.

But I think, coming back to your key point, which is that this whole development process needs greater coordination. Not only I would say the U.S. Government, but the U.S. Government, these international institutions and other donor countries and their bilateral aid programs need greater coordination.

That recognition is there and the process has begun to try to get more meaningful coordination on the ground. I think that is a large part of what the Baker plan calls for. It is greater coordination at all levels of the process and we are working that through. But it going to take some time because there are real problems in trying to bring together the bilateral program in conjunction with the MDB's and in conjunction with what other bilateral donors are doing. Not everybody sees these things in quite the same way.

Mr. LEVIN. I am going to try to get back. I am sorry if I am going to miss some of the other testimony. But the problem with that is we have been talking about greater coordination for a long, long time and we have trouble making the process. So what you do is you have a subcommittee of the Congress that is pushing you along instead of your being out front, and you have the NGO's as adversaries instead of trying to find ways to incorporate that process where it belongs with help from NGO's but within our processes.

Mr. CONROW. Well, I wouldn't put this in an adversary role at all. In fact, I would say that clearly from my perspective sitting in Treasury and watching this particular issue unfold, that the NGO's are the ones who brought it to our attention.

Mr. LEVIN. That is what I mean by an adversary.

Mr. CONROW. But I don't think that is adversary. What we are suggesting is if there is a problem, we are open to looking at it, and I am particularly open to this matter. We have engaged NGO's and they are very forthright on this matter and we are very much involved with them.

I think it is a working partnership between the NGO's, this Congress, this subcommittee and the other committees who are interested in this matter and the executive branch. It is a working effort. This is the impressive side of it for me because we are not in an adversarial role. We all have a common objective that we are pursuing and we are trying to get it done as best we can within the limits that we all have to operate under.

Mr. LEVIN. I think a regular report might help.

Mr. CONROW. It is an absolute waste of time.

Mr. LEVIN. To give us a regular report on what you are doing?

Mr. CONROW. I can come up here and talk to you until I am blue in the face. I would rather do that and we can talk and talk and talk and go over the details. But I think to actually tell me that I have now got to sit down and write a report and have my staff sit down and write a report is going to use up resources that I really cannot afford to use. And I know and you know what happens to these reports. They sit and they get dusty. I am being very candid about it, but I have very strong views on this, I find annual reports to be just an absolute waste of our time. When we have got a lot of important work to do, I would rather get out and do the work, and if you want to know the details we will sit down and talk. [Laughter.]

Chairman **Lundine**. You are going to love some legislation I am thinking of.

Mr. **Conrow**. I can imagine. [Laughter.]

Chairman **Lundine**. I think that you will find that we are not entirely unsympathetic to your point of view. I confess, if that is the right word, that is an easy thing for a congressional panel to do.

Mr. **Conrow**. In fact, I am going to have to try to come up at some point before this committee and some of the others to argue for the elimination of the NAC annual report, and other reports.

Chairman **Lundine**. I will tell you, and this is totally off the subject, I think, but I will make you a deal. [Laughter.]

Let's sit down and discuss the reports. Maybe we can accomplish more in a time of stringency than in a time of plenty. And, believe me, you are not the only one that is struggling under Gramm-Rudman. It happened to hit us worse than anybody else first-off, other than Federal retirees.

I would really welcome a dialog both about proposed and existing reports so that they make sense from both of our perspectives.

Mr. McCandless, did you have questions?

Mr. **McCandless**. I apologize to Mr. Conrow. I got treated by a staff member of the University of San Francisco in Marymount on the Contras and didn't have a chance to break loose from him.

Chairman **Lundine**. They are the experts on that subject, aren't they. Thank you very much, gentlemen. I really appreciate your coming up.

Now I would like to ask for the panel of witnesses to come forward.

I think that we will start with Barbara Bramble.

In each case, and I will not repeat it, all of your written testimony will be made a part of the record, and to the extent that you can summarize it, we would appreciate it.

STATEMENT OF BARBARA J. BRAMBLE, DIRECTOR, INTERNATIONAL PROGRAM, NATIONAL WILDLIFE FEDERATION

Ms. **Bramble**. Good morning, Mr. Chairman.

I am Barbara Bramble, director of the National Wildlife Federation's International Program.

I appreciate the opportunity to appear once again before this subcommittee to discuss the responses of the multilateral development Banks to the subcommittee's recommendations on incorporating environmental concerns into MDB activities.

We fully endorse the detailed comments which are being submitted today by Bruce Rich representing the Environmental Defense Fund and several other conservation organizations.

Thus, in the interest of saving time today, I will focus on a few of the 19 recommendations which in our estimation pose continuing problems.

In general, we feel that there has been some progress by the MDB's in at least acknowledging the importance of the environmental issues, but actual implementation of the recommendations is so far little in evidence.

On the other hand, the Treasury Department and the State Department also have placed growing emphasis on the environmental aspects of Bank activities and they can take much of the credit for the moderate progress which has occurred.

The addition of a staff position devoted primarily to these issues at Treasury has proven a tremendous help in facilitating the communication flow between the Banks and the environmental groups.

But Treasury is hampered in its efforts to monitor MDB activities by a lack of timely information. They obtain information on projects sufficient to assess actual problems only shortly before a project is reviewed by executive directors for a voting decision. That is much too late for environmental review, and we urge the subcommittee to look in more detail at this problem of timely information.

On recommendation No. 3, the Inter-American Development Bank staffing point, that Bank has developed a Committee on the Environment which has set a useful precedent. They have established a body which includes high-level decisionmakers in the environmental review process. But a project is not referred to this committee unless an ad hoc project committee or one of the standing review committees has decided that its environmental issues are of "greater significance than normal."

The crucial question then is what is considered to be a normal degree of environmental significance?

In addition, who is making the decisions regarding the environmental significance of a project? There is no mention of a qualified environmentally trained staff on any of these project or review committees.

And, similarly, there is no mention of staff specifically trained in environmental matters included on the Committee on the Environment itself.

Another significant deficiency in the IDB's process of environmental review is the lack of a method for detecting potential environmental problems early in the project planning process. I am afraid that a high-level committee established to resolve serious problems later in the review process will be relatively ineffectual.

Similar staffing problems remain at the World Bank. Specifically, the continuing lack of regional environmental representatives is disturbing. There is still no accountability at the regional level where it should be easiest and most logical to make necessary changes in programs or projects.

We cannot overstate the importance of placing environmentally trained personnel in a position of responsibility at the regional level where their input can be utilized early in the process.

With regard to recommendations 6 and 11 on training, Treasury's January memorandum emphasizes the importance of including environmental concerns throughout the core structure of the economic development institute and in other training opportunities rather than offering separate environmental courses. This is definitely a good idea, but we see little sign yet of implementation of this training regardless of the format.

On recommendations 8 and 9, which involve nongovernmental organizations, adding them to the project planning process, we think these are perhaps the central concepts in all of the recommendations that could really lead to change.

The Banks have admitted the value of this step, but they nevertheless seem reluctant to implement it claiming that they cannot move ahead of the borrowing governments in this area. But the fact that the IDB Small Projects Program frequently uses NGO's as contractors and funding intermediaries is evidence that it can be done. Yet, even the Small Projects Program at the IDB apparently has little active support among the staff of that institution.

Mr. Conrow's proposal this morning to ask the MDBs to report specifically on how they have involved NGO's, or to explain why not, will be very salutary in this context.

On recommendation 12, it seems clear that there has been little progress by the Banks in promoting environmentally beneficial projects, but Treasury officials have agreed to follow up more vigorously.

The two areas which Treasury has targeted for more widespread development of environmentally beneficial projects, tropical forest protection and irrigation management, are major environmental issues and are of vital concern. We are certainly encouraged by Treasury's pledge of action in this area.

On recommendation 13, the Banks have provided some positive responses to the idea of incorporating appropriate technology into projects, although we have seen little evidence of actual implementation.

Moreover, it must be remembered that appropriate technology is not just a buzz word, but is crucial to the concept of sustainable development in various key sectors of the national economy. Thus, we expect, but we have not yet seen, the Banks growing activity in this area to have an effect on major long-term development decisions, such as electricity generation.

This subcommittee will be able to tell when this recommendation is being seriously implemented when the nature of approved projects begins to change, and this has not yet taken place.

With regard to recommendation 16, using the U.S. vote in this area, we agree in part with Treasury's assertion that development of a set of automatic environmental criteria to determine negative project votes by the United States could be interpreted as caving into domestic political pressure.

There are, however, good reasons for promotion of a useful set of environmental criteria. For example, when the U.S. Executive Director of the IDB set a precedent last year by refusing to support the funding of a Brazilian road building project, the sobering effect of this vote was substantial.

However, had there been an effort to review this project systematically against the criteria set forth in recommendation 16 and the reasons for them, the U.S. position might have been persuasive to other IDB members and the U.S. vote might not have been the only abstention.

In summary, Mr. Chairman, the MDB's actions to implement the subcommittee's 1984 recommendations have been disappointing. Some of the Banks' responses have indicated a change in attitude toward the importance of these issues, but I am afraid that all too often this is merely a product of their excellent public affairs programs.

We are pleased that the Treasury Department has made a commitment to raise the visibility of the recommendations among the Executive Directors and the Bank's staff. But the Banks should realize that besides this subcommittee and at least four other congressional subcommittees many people are following their actions carefully.

As detailed by Mr. Rich, other MDB member governments are reaching similar conclusions about the inadequacy of the environmental performance of the Banks, and we expect that the Banks will feel increasing international pressure for these environmental reforms.

With your permission, Mr. Chairman, I would like to turn briefly for just a moment to the subject of the natural resources conservation and the Third World debt.

Up until recently there has been little effort to connect these two subjects, but we believe there is an important relationship. Although the evidence is still in the process of being gathered and in some places the connections may not be clear, there seem to be at least two kinds of debt related problems for natural resources.

One is the need to increase exports as much as possible to earn dollars to pay interest which puts pressure on developing countries to increase the amount of land devoted to usually unsound cash crop agriculture, to overexploit tropical forests and in some cases to accept older technology plants of dying industries moved from developed countries, the pollution of which is often difficult to control.

The second effect stems from deep government spending cuts required by imposed austerity programs which are crippling natural resource management and pollution control programs. Thus, often these agencies are less able to deal with the problems, just as the export oriented activities require more attention to the environment.

We know that this is true in Mexico where I recently visited to discuss this problem with government officials, academic experts and conservation groups. The impacts that are generated by these two processes may affect all of us as generically rich tropical forests throughout the world are lost and pollution increases in many parts of the world.

Thus, any discussions of solutions to the debt crisis must give attention to sound management of natural resources. Otherwise, the selected alternatives may exacerbate the pressures on the environment.

In this context the National Wildlife Federation has begun to explore options that could contribute to both maintaining international financial stability and permitting developing countries to manage their natural resources for sustainable development.

A memorandum, which is attached to my testimony, outlines several ideas for changes in loan conditionality and forms of debt restructuring that could achieve this combined result.

In general, the changes in conditionality are designed to undo the destructive effects of current austerity requirements. The debt restructuring options involve more or more forms of an international agreement which would exchange partial or total debt forgiveness or conversion of external debt to local currency accounts for the borrower's implementation of an agreed set of domestic programs that would contribute to sound natural resources management.

Any such scheme, of course, would have to be negotiated among the relevant governments and private parties. They are offered here as examples of partial solutions that could be combined with one or more related schemes to fashion a debt restructuring agreement for each relevant country or groups of countries.

As these ideas are still in the developmental stages, they are going to need a lot more detailed examination, but because events may be catching up with us, it seems useful to begin to discuss them now.

The National Wildlife Federation looks forward to working with this subcommittee to investigate the debt problem and the possible solutions in more detail.

Thank you, Mr. Chairman.

[The prepared statement of Ms. Bramble on behalf of the National Wildlife Federation follows:]

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STATEMENT OF BARBARA J. BRAMBLE
DIRECTOR INTERNATIONAL PROGRAM, NATIONAL WILDLIFE FEDERATION
AT HEARING ON THE ENVIRONMENTAL ACTIVITIES OF THE
MULTILATERAL DEVELOPMENT BANKS

BEFORE THE
SUBCOMMITTEE ON INTERNAITONAL DEVELOPMENT INSTITUTIONS AND FINANCE
HOUSE BANKING, FINANCE AND URBAN AFFAIRS COMMITTEE
FEBRUARY 26, 1986

Mr. Chairman and Members of the Subcommittee,

I am Barbara Bramble, Director of the National Wildlife Federation's International Program. I appreciate the opportunity to appear once again before this Subcommittee, to discuss the response of the Multilateral Development Banks (MDBs) to the Subcommittee's recommendations on incorporating environmental concerns into MDB activities.

The National Wildlife Federation is the nation's largest private conservation organization, with 4.5 million members and supporters, dedicated to the wise use of natural resources. We believe that appropriate use and management of natural resources is essential to sustainable development and is not a luxury. This is just as true in the developing countries as it is here in the United States.

I. Context of These Hearings

By the end of 1984, this Subcommittee had convened five hearings in which the environmental activities of the MDBs were examined. The Subcommittee then initiated a change in U.S. policy to improve the existing situation within the banks, by formulating a set of 19 recommendations which address MDB staffing, programs and procedures.

In the fourteen months since the recommendations were published, there have been a few positive signs of change in the attitudes of the MDBs on this subject. The U.S. Treasury Department deserves much of the credit for this change, for it has taken a firm stand in following the banks' activities and in pressing for adherence to the recommendations. Yet, overall, the MDB practices remain basically the same.

II. Implementation of the Recommendations

We fully endorse the detailed comments submitted today by Bruce Rich, representing the Environmental Defense Fund, Sierra Club, and five other conservation organizations. Thus, in the interest of saving time today, I will focus on a few of the 19 recommendations which, in our estimation, have not yet elicited an appropriate response.

Treasury Staffing (Recommendation 2):

The Department of Treasury, as I mentioned, has indeed placed growing emphasis on the environmental aspects of bank activities, and can take much of the credit for the progress which has occurred. The addition of a staff position devoted primarily to these issues has proven a tremendous help in facilitating the communication flow between the banks and environmental groups.

Treasury is hampered in its efforts to monitor MDB activities by a lack of timely information. For example, some changes seem to be necessary in the "early warning system", which has recently been adapted by Treasury and the Agency for International Development (AID) for early identification of environmentally adverse projects.

As we understand it, this seems basically to be a good idea that does not yet work effectively. The system was developed initially only to permit field level coordination between multilateral and bilateral development agencies. Therefore, as it is set up currently, it is not adequate for effectively influencing the environmental design of a project. Treasury staff and, by extension, AID recieve very little project information in the early planning stages. They obtain information sufficient only to assess problems shortly before a project is reviewed by the Executive Directors for a voting decision. That is much too late for environmental review.

However, this process does provide a solid basis for developing an early warning system that could be truly effective. But the banks would have to cooperate. We urge the Subcommittee to look in more detail at this problem of timely information.

IDB Staffing (Recommendation 3):

a) The Inter-American Development Bank (IDB), having developed a Committee on the Environment, has set a useful precedent by establishing a body which includes high-level decision makers in the of environmental review process. However, there are problems with this system in its current form.

i) A project is not referred to this Committee unless an ad hoc project committee, or one of the standing review committees, has decided that its environmental issues are of "greater significance than normal". The crucial question, then, is: what is considered to be a "normal" degree of environmental significance? Detailed guidance to IDB staff and the interested public on this point seems appropriate.

ii) Who is making decisions regarding the environmental significance of a project? There is no mention of a qualified environmentally trained member on any of these project or review committees. How can they make informed decisions as to whether to forward a project to the Committee on the Environment?

iii) Similarly, there is no mention of a staff specifically trained in environmental matters being included on the Committee on the Environment. While we compliment the IDB on involving six senior managers in environmental review, we feel that it is essential that there also be included some members who have a strong environmental background.

b) There are other significant deficiencies in the IDB's process of environmental review. For example, there appears to be no method of detecting potential environmental problems early in the project planning process, and there is no clear definition of what such problems might be. Unless such changes are made, a high-level committee established to resolve serious problems later in the review process will be relatively ineffectual.

c) One other important point must be clarified. The IDB has stated that some environmental experts feel that the bank's "intra-departmental, intra-disciplinary" (sic) approach to reviewing the environmental aspects of projects is preferable to the establishment of an environmental coordinator (1). NWF does agree that dispersion of environmental review capability might be effective in an ideal world. In practice, however, for such an approach to be effective, there must be i) fully trained environmental personnel throughout the bank's organization, and, ii) certain personnel who are assigned the clear responsibility to deal with natural resources issues. It is quite obvious that neither of these conditions is fulfilled at this time.

In sum, the IDB has not adequately responded to the need for increased environmental staff capability.

World Bank Staffing, Organization (Recommendation 5):

Similarly, although we fully support the Environment, Science, and Technology Unit at the World Bank, and recognize the value of its work, we are not convinced that the Bank is doing what is necessary to incorporate environmental review into its system.

Treasury's January 17, 1986 memo mentions that there are over 2,700 Bank professionals "in a wide range of disciplines, many of which require operational familiarity with environmental aspects of projects". But what is the training of people in these fields which require "operational familiarity" with environmental aspects? Are these trained ecologists, who understand the full interdependance of ecosystems and thus the wide-ranging impact a project might have on an entire region? Or are they professionals whose role is the economic exploitation of resources?

The continuing lack of regional environmental representatives is disturbing. There is still no accountability at the regional level, where it is easiest and most logical to make any necessary changes in projects or programs. We cannot overstate the importance of placing environmentally trained personnel in a position of responsibility at the regional level, where their input can be utilized early in the planning process.

Environmental Training for Bank Staff and Borrowing Country Officials (Recommendations 6 and 11):

Treasury's January memorandum emphasizes the importance of including environmental concerns throughout the course structure of the Economic Development Institute, and in other training opportunities, rather than offering separate environmental courses. This idea is definitely a good one, and we congratulate the Treasury Department for suggesting such an approach. However, there is still a need for teaching the basic, fundamental principles of resource management. We look forward to further discussion of how this aspect can be added to the Institute's curriculum.

Furthermore, we see little sign yet of implementation of this training, regardless of the format. The MDBs should be urged to move ahead on staff training. In addition, it is essential that the borrowing governments actually want their ministries to become involved in such training, and it is here that the banks can play an important role. Through their encouragement, and perhaps some form of incentive system, training which promotes understanding of basic environmental principles could become very useful to governments of developing countries.

Consulting Non-Governmental Organizations (Recommendation 8):

In addressing this key recommendation to include Non-Governmental Organizations (NGOs) in project planning, the banks have admitted the value of such a step. They, nevertheless, seem reluctant to implement it, claiming that they cannot move ahead of the borrowing governments in this area. While there have been some instances that we know of where such contacts have occurred successfully, they are rare.

What is needed is the sensitive exercise of leadership, by Treasury and the banks, to point out the value of including responsible citizen groups in the planning process. There is no doubt that project proposals could benefit from NGO input, and in fact this may be crucial to the success of projects which involve large numbers of people. Despite the political sensitivity inherent in this approach, there is certainly more that the banks can do to encourage it. Progress in implementing this and Recommendation 9 has been conspicuously lacking.

Contracting with NGOs (Recommendation 9):

While this is another area of political sensitivity, the fact that the IDB small projects program frequently uses NGOs as contractors and funding intermediaries is evidence that it can be done. Yet here, too, there has been little evidence of action. We would like to see, for example, a World Bank policy statement clarifying that contracting out to local NGOs is an appropriate mechanism. The influence of such a step would be substantial. We shall continue to watch the actions of the World Bank and other MDBs with regard to this and the previous recommendation, since we regard them as among the most important of the 19.

Involvement of Environment/Health Ministers (Recommendation 10):

The banks seem to be agreeable to the inclusion of environmental and health ministries in discussions of impacts of non-environmental and non-health projects. Yet there is little substantial evidence to show that they are actually implementing this recommendation. We'd like to see more real evidence from the banks that they are, indeed, following up on this step.

Environmentally Beneficial Projects (Recommendation 12):

It seems clear that there has been little progress by the banks in promoting environmentally beneficial projects, but Treasury officials have agreed to follow up more vigorously. The two areas which Treasury has targeted for more widespread development of environmentally beneficial projects, tropical forest protection and irrigation management, are major environmental issues and are of vital concern. We are encouraged by Treasury's pledge of action in this area.

It would be useful to remember, in this regard, that promoting "environmentally beneficial" projects is intended to lead to sustainable development, not to impose requirements for environmental luxuries, which offer no long-term economic value.

Appropriate Technology (Recommendation 13):

The banks have provided some positive responses to the *idea* of incorporating appropriate technology into projects, although we have seen little evidence of progress so far. Moreover, it must be remembered that appropriate technology is not just a "buzz word" but is crucial to the concept of *sustainable development*, in various key sectors of a national economy. Thus, we expect, but have not yet seen, the banks' growing activity in this area to have an effect on major long-term development decisions, such as electricity generation. The Subcommittee will be able to tell when this recommendation is being seriously implemented - when the nature of approved projects begins to change. This has not yet taken place.

1980 Declaration (Recommendation 15):

Since the Declaration of Environmental Policies and Procedures Relating to Economic Development was made in 1980, little has been done to actually implement it. All of the signatories continue to support it in principle, but few have taken concrete action. This inaction became the focus of a statement by Dr. Mostafa K. Tolba, Executive Director of the United Nations Environment Programme (UNEP), at the sixth meeting of the Committee of International Development Institutions on the Environment (CIDIE) in Washington last year.

Dr. Tolba claimed that there had been a "distinct lack of action by several multilaterals," and went on to warn of the potential for CIDIE to develop a reputation of "saying but not doing things" (2). Increased action by the banks in implementing the 1980 Declaration will be necessary to forestall its failure and dissolution.

U.S. Vote (Recommendation 16):

We agree, in part, with Treasury's assertion that developing a set of automatic, environmental criteria to determine negative project votes by the U.S. could be interpreted as caving in to domestic political pressure. There are, however several reasons for promotion of a useful set of environmental criteria.

The seriousness with which the U.S. Executive Directors treat these issues will be reflected in their discussions with other bank directors and thus, hopefully, in those governments' attitudes and votes. The risk lies in promotion of such criteria only as a token formula; it is therefore imperative that all of the governors realize the sustainable development basis for consideration of environmental issues. The U.S. Executive Director must communicate that the basis for such criteria is the development of sound financial investments, not disasters.

When the U.S. Executive Director of the IDB set a precedent by refusing to support the funding of a Brasilian road-building project in Acre State, Brasil, last year, the sobering effect of this vote was substantial. However, had there been an effort to review this project systematically against the criteria set forth in Recommendationn 16 and the reasons for them, the U.S. position might have been persuasive to other IDB members, and the U.S. vote might not have been the only abstention. In such a case, the results would have been even more effective.

Executive Director Meetings (Recommendation 17):

We strongly support Treasury's intention to raise environmental concerns at the banks' Executive Director meetings. Discussion of environmental issues at these meetings is indeed one of the slow but sure methods of communicating a substantive policy change. We look forward to finding a reflection of such discussions in the dialogues of other governments with our growing network of international NGOs in both borrowing and lending countries.

OTA Study (Recommendation 18):

We urge this Subcommittee and then the full Committee to formally request the recommended six-month study by the Office of Technology Assessment. The banks have been given many chances to respond to the Committee's recommendations, and a detailed study at this time would be appropriate.

* * *

In summary, Mr. Chairman, the MDBs' actions to implement the Subcommittee's 1984 recommendations have been disappointing. Some of the banks' responses have indicated a change in attitude toward the importance of these issues, but I am afraid that all too often this is merely a product of their excellent public affairs programs.

We are pleased that the Treasury Department has made a commitment to raise the visibility of the recommendations among the executive directors and bank staff. But the banks should realize that, besides this Subcommittee, at least four other Congressional subcommittees are following their actions carefully. In addition, as detailed by Mr. Rich, other MDB member governments are reaching similar conclusions about the inadequacy of the environmental performance of the banks. Thus we expect that the banks will feel increasing international pressure for environmental reforms.

III. Third World Debt and Natural Resources Conservation

I will turn briefly now to a related subject which this Subcommittee has been considering, and which will become increasingly critical over the coming months -- the high level of external debt of most developing countries. As the Subcommittee has already found (3), the debt is troubling from several points of view.

First, it is stifling the development hopes of many countries, including the poorest nations in Africa, because from one-third to 60% of their painfully won export earnings are devoted to paying interest. Second, as developing countries are pressured to reduce their imports, U.S. jobs are lost - as many as 800,000 in the 1980's, according to one estimate (4).

In addition, if one or more of the larger borrowers (primarily four Latin American nations) should default, this threatens the soundness of several major banks in the United States and by extension the international financial system (5). And in fact, in recent days, Mexico, one of the two biggest borrowers, has been forced to seek a new accomodation with its lenders. With the drastic fall in the price of oil, Mexico's principle export, the Mexican government can no longer pay the full amount of interest on its debt. Therefore negotiations have been initiated, to seek a solution to Mexico's current crisis and simultaneously to save from insolvency certain U.S. banks with large outstanding Mexican loans.

This Subcommittee has a key role, along with the Subcommittee on International Finance, Trade and Monetary Policy, other House and Senate Committees, and representatives of the Administration, in fashioning a U.S. response to the international financial situation. Conservation groups have only recently begun to investigate this situation, especially its relationship to natural resources conservation. Although our studies are far from complete, this seems to be a useful avenue of inquiry. Therefore, the National Wildlife Federation offers the following comments, based on our preliminary review, in the hope that they will provide a useful addition to the policy debate.

A) The Natural Resources Connection

While documentation is scant so far, and effects may vary form place to place, the recent explosive growth of external debt in several countries is seriously affecting natural resources management. This is occurring in at least two ways.

First is the emphasis by the International Monetary Fund and official development lenders on promoting exports to produce foreign exchange to service the debt. In some countries this has meant devoting an increased amount of land to cash crop monocultures; this results in growing pressures being placed on already overstressed ecosystems such as marginal farmlands and genetically rich tropical forests. The need to increase short-term economic productivity is, in some cases, reducing the potential for long-term sustainable development in agriculture, forestry, and fisheries.

In addition, the IMF also requires deep government spending cuts, thereby crippling forest, water, and land management agencies, halting basic pollution control programs, as well as retarding the delivery of health and sanitation services.

Two examples, close to home, bear out both effects. In northern Mexico, intensive agriculture has recently been developed in order to sell produce to the United States to earn foreign exchange. Fragile desert lands have been plowed, and groundwater is being mined to irrigate the fields. These farms are not sustainable. Within a few years the water table will be too low for economical pumping. The long-term development of the region is being jeopardized for a quick return.

In the same vicinity, near Nacozari, a copper smelter was recently constructed. This project was a marginal investment for Mexico because the price of copper is so low, but it was implemented because it will earn some foreign exchange. The U.S. and Mexican environmental protection authorities concluded an agreement last year whereby Mexico would install air pollution abatement equipment on the plant to protect the southwest U.S. from a large increase in sulphur-dioxide emissions. But because of the debt situation it has become clear that Mexico cannot fulfill its pledge. This is expected to have far-reaching implications for acid precipitation as far away as the Colorado Rockies. But at this point, Mexico has little choice.

B) New Conceptual Approaches to Third World Debt

The current situation thus combines a serious threat to the international financial system with the erosion of the potential for long-term sustainable development in some countries. Particularly now, with Mexico's predicament reaching the headlines once again, it is time to look for creative solutions to the debt crisis.

Last year's Subcommittee Report "Dealing with Debt" recognized the "long-term unsustainability of recessionary austerity measures in developing countries." It called upon the World Bank to play a catalytic role in identifying options available to the creditor and debtor governments, and in comercial and multilateral banks, to resolve the debt crisis. Among the options examined should be the various forms of debt relief, and long-term assistance to permit long-range development investment.

The National Wildlife Federation supports that recommendation. But in the identification of the financing options and negotiating solutions, it is crucial that environmental concerns be taken into account. Otherwise, the selected alternatives may exacerbate the pressures on natural resources.

In this context, the Federation has begun to explore options that could contribute to both maintaining international financial stability and permitting developing countries to manage their natural resources for sustainable development. A memorandum attached to this testimony outlines ideas for changes in loan conditionality and forms of debt restructuring that could achieve this combined result.

In general, the changes in conditionality are designed to undo the destructive effects of current austerity requirements. Similarly, the debt restructuring options involve one or more forms of international agreement to exchange partial or total debt forgiveness, or conversion of external debt to local currency accounts, for the borrower's implementation of an agreed set of domestic programs that would contribute to sound natural resources management. (See attached memorandum, pp. 3-7.)

Of course, all such schemes would have to be negotiated among the relevant governments and private parties. They are offered here as examples of partial solutions, that could be combined with one or more related schemes, to fashion a debt restructuring agreement for each relevant country or group of countries.

These ideas are still in the developmental stages, but because events may be catching up with us, it seems useful to begin to discuss them now. The National Wildlife Federation looks forward to working with the Subcommittee to investigate the debt problem, and the possible solutions, in more detail.

Thank you, Mr. Chairman.

FOOTNOTES

(1) See memorandum of January 17, 1986, Department of the Treasury, Enclosure 3: Inter-American Development Bank memorandum of April 22, 1985.

(2) See Attachment: "Statement by Dr. Mostafa K. Tolba, Executive Director, UNEP, to the Sixth Meeting of CIDIE; Washington, D.C. 1985".

(3) "Dealing with Debt, Rekindling Development: The U.S. Stake in the Performance of the World's Development Banks." Report of the Subcommittee on International Development Institutions and Finance, Ninety-ninth Congress, October, 1985.

(4) Testimony of Gerard Adams, Wharton Economic Forecasting Associates, before Joint Economic Committee, June, 1985.

(5) De Coodt, Patrick, "The Third World Foreign Debt Problem: Whose Problem? Which Solutions?" in Revue de la Banque, Centre de Etudes Financieres, Brussels, Belgium, 1985.

Chairman LUNDINE. Thank you, Ms. Bramble.
Mr. Rich.

STATEMENT OF BRUCE M. RICH, ENVIRONMENTAL DEFENSE FUND

Mr. RICH. Mr. Chairman, I appreciate very much the opportunity to appear before this subcommittee today to review the progress of the multilateral Banks and the administration in implementing the subcommittee's recommendations concerning multilateral development bank activity and the environment.

I am testifying today on behalf of the Environmental Defense Fund and six other national environmental organizations with more than 1 million members and supporters nationwide.

The seven national environmental organizations I represent today wish to express their thanks and appreciation for the concern and interest the chairman of the subcommittee has shown in promoting approved attention by the multilateral Banks to environmental aspects of their activities.

The environmental recommendations of the subcommittee were a remarkable and high praiseworthy accomplishment because in substance they embody the consensus of what measures the subcommittee, the administration, and national environmental organizations concluded were needed to address serious inadequacies in the way the development Banks were addressing environmental concerns.

In my statement I will give a brief account of the growing interest and concern of a number of other major donor countries to the MDB's concerning the need for improved attention to environmental matters in those institutions, and then I will review the progress of the administration in the Banks in implementing the recommendations.

Although the administration has made vigorous and highly praiseworthy efforts to implement and promote the recommendations, the Banks themselves have done little of substance. Worse, over the past year the MDB's have prepared and approved several huge projects which are the subject of international concern and outcry and which risk greater ecological and social-cultural destruction than many previous projects which have turned out to be environmental disasters.

Last October, Mr. Chairman, a colleague of mine and I visited six major West European countries to discuss the substance of the environmental recommendations of the subcommittee with senior civil servants in finance and foreign aid ministries, with members of national parliaments and legislatures and with representatives of nongovernmental organizations.

In preparation for this trip, the Treasury and State Departments cooperated in sending a cable to U.S. Embassies in a number of the countries we visited to facilitate our meeting with key government officials and politicians.

The recommendations were received positively by officials in the finance and/or foreign aid ministries in five countries: Holland, Belgium, Denmark, the Federal Republic of Germany, and the United Kingdom—though in general we received indications that these countries would follow the United States lead rather than initiate measures themselves concerning environmental improvements in the Banks.

One common and somewhat disturbing thing that emerged from the course of our meetings with government officials charged with MDB matters in these countries is that they had very little resources or time to review MDB policies and projects, not only from the environmental, but also from other perspectives.

And several donor countries' finance and foreign aid ministries noted that they received MDB project appraisal reports only 2 or 3 days before the projects were to come up for approval before the Banks' boards of directors.

We couldn't help but conclude that there is a dangerous lack of accountability of Bank management and staff for environmental and other impacts of projects, and that one way of remedying this would be to open up access to information on perspective projects at an early stage to nongovernmental groups in both borrower and donor countries.

The growing interest and concern that the administration has shown in implementing the recommendations is heartening and deserving of praise. Indeed, the organizations I represent today wish to publicly express their appreciation for the measures that the Treasury Department has taken over the past year, and more recently for the increasing involvement of the State Department in these MDB environmental matters.

One special concern of the environmental groups is recommendation No. 16, that the U.S. Executive Directors oppose certain categories of projects that are environmentally destructive in their final form.

There indeed was one precedent setting example of the implementation of this recommendation last January when the U.S. Executive Director of the Inter-American Development Bank abstained from approving a loan to Brazil for road building in the Amazon Forest on environmental grounds, the first time that the U.S. Executive Director I understand had abstained on any loan for Brazil in the entire 25-year history of that institution. However, the U.S. abstention in January 1985 of the IDB was an isolated instance.

The Treasury Department has maintained in its submission to the subcommittee for this hearing that "rigid application of criteria" to oppose specific categories of projects isn't helpful or constructive at this time.

We think, nevertheless, that it is essential that the U.S. Executive Director's Office at the very least intervene earlier in the planning stages of environmentally sensitive projects to assure that they don't come to a vote before the MDB boards in an environmentally acceptable form.

And we think that as a last resort abstaining or voting against destructive projects is one of the most effective ways the United States can spur better environmental preparation of future projects.

In contrast to the increasing commitment of the executive branch in promoting improved environmental quality in MDB activities, the Banks themselves have done little of substance to commit more resources and institute effective procedures to environmentally assess their projects, not to speak of reorienting their lending in less environmentally destructive directions.

Concerning the recommendation on environmental staffing, the Inter-American Development Bank has claimed in a submission to the Treasury Department that its environmental management committee performs the function of an environmental unit.

But, Mr. Chairman, the members of that environmental management committee are senior-level Inter-American Bank managers, such as the general counsel and the external relations advisers, that already have extensive and wide- ranging duties and responsibilities.

Simply to declare that a number of high-ranking IDB officials are members of an environmental committee does not address the fundamental question of whether that Bank has professionally trained environmental staff who are devoting a substantial part of their efforts to the time-consuming task of reviewing prospective projects for their environmental impacts.

In fact, Mr. Chairman, if the IDB senior management and its environmental committee were really meeting with project committees on a systematic basis to review prospective projects for their environmental impacts, they would have time for virtually nothing else since three-quarters of IDB funding in recent years has been in the environmentally sensitive areas of energy, agriculture, transportation, mining and industry.

The World Bank's response to legitimate and substantive suggestions concerning environmental staffing forwarded to it by the Treasury Department can best be described as a brushoff. Indeed, from our perspective, it almost seems cavalier.

That response, which was also submitted to the subcommittee with the other materials by the Treasury Department, starts by stating that the the World Bank has considered the staffing suggestions in the past, and it ends by stating that it will continue to consider them in the future "along with other approaches that may surface."

I would like to cite for the record one fact which more than any other symbolizes the current priorities of the MDB's concerning the importance of environmental staffing.

The World Bank employs nearly four times more professionals in its public relations division, known as Information and Public Affairs, than are employed in the environmental office.

In fact, the World Bank has almost twice as many professionals in its speech writing unit, five, than the environmental office employs in attempting to review prospective projects in key lending sectors for environmental impacts.

With respect to the recommendation concerning inclusion of ministries of the environment and public health and project planning, again, Mr. Chairman, there has been mostly rhetoric but not much substance on the part of the banks.

With respect to the recommendation concerning the inclusion of nongovernmental conservation and indigenous peoples' groups and project planning implementation, again we have a disturbing gap between rhetoric and reality. The World Bank has claimed that "as a general policy it has been striving in recent years to identify the role that such organizations may play in project identification design and implementation."

The Treasury Department itself noted in its submission to the subcommittee that its review of projects over the past 2 years suggests that such organizations are not being systematically consulted.

Concerning the promotion of environmentally beneficial projects, again, not much progress, Mr. Chairman. The MDB's are continuing to finance large-scale environmentally destructive projects, many of which have dubious long-term economic benefits, and neglecting smaller scale environmentally beneficial alternatives even when they are economically less risky.

In my prepared statement I have referred to two projects which are of special concern to the national environmental groups that I represent today which have been approved by the World Bank over the past year. One is the fifth loan for Indonesia transmigration and the other are two loans of the World Bank for a huge area development program in the Narmada River Basin in India.

In my prepared statement I have raised some issues about the Indonesia transmigration loan which I think are worthy of further scrutiny by the subcommittee since many of these environmental and social cultural impacts will also result in poor economic results in projects of this scale.

Chairman LUNDINE. Excuse me. Did you say Indian transmigration loan? I think you meant——

Mr. RICH. The Indonesia Transmigration Program and the second was the India Narmada River Basin Development Program.

Mr. Chairman, a fitting summary of the Bank's real progress over the past 15 months in improving their approach to environmental matters can be found by scrutinizing their responses to recommendation No. 15 concerning their adherence to an implementation of the 1980 environmental declaration which they all signed.

As Treasury has pointed out, the declaration was undertaken by the Banks to carry out several of the activities that were identified in the subcommittee's recommendations.

The World Bank in its response stated that:

> The principal impediment to the effective implementation of the declaration appears to be the unwillingness or unability of the management of the other signatory institutions to lend support and provide the resources necessary for its attainment.

The Inter-American Development Bank notwithstanding that statement of the World Bank claims that it is continuing to adhere to the declaration's precepts and cites the effective functioning of its environmental management committee as an example of how it is implementing that declaration.

But, Mr. Chairman, at the last meeting of the Committee on International Development Institutions and the Environment, which was the committee that was set up to follow the progress of the implementation of that declaration, at the last meeting of that committee which took place in Washington last June, the Executive Director of the United Nations Environment Program strongly criticized the multilateral banks for their inaction in implementing the various actions called for in the declaration.

He said that there has been a distinct lack of action by several multilaterals, and went on to say that several members of the CIDIE have gone along in principle more than in major shifts of action.

And he cited as an example that nearly 4 years after the multilateral members of the CIDIE had proposed that the World Bank's Economic Development Institute hold a training course on the integration of environmental concerns and development planning, a course that would have cost $120,000, that the World Bank had still not implemented that course. Implementing that course would have been one step toward fulfilling recommendation No. 6 in the subcommittee's December 1984 report.

The head of the United Nations Environmental Program went on to portray a discouraging record by the multilaterals in their attention to environmental concerns.

He pointed out that "Environmental impact assessments are not yet an integral part of all or even major development projects." And he noted that there has been increasing concern, not only in donor countries, but in numerous developing countries over the failure of the multilateral aid agencies to do more than just talk about the environment.

Mr. Chairman, the organizations I represent today believe there is an increasingly serious credibility gap between the stated policies and intentions of the MDB's concerning the environment and their real commitment of resources and institutional priorities to address the issues.

They have taken some positive measures over the past year, but from our perspective these concrete positive measures have occurred in the context of projects which have become internationally notorious for their essential ecological destructiveness. These measures have been only mitigatory actions for basically unsound development, and I am referring in particular to two large projects in Brazil which the World Bank and the Inter-American Development Bank have been involved in, the World Bank's Polonoroeste Program and the Inter-American Bank's financing of a large road in the State of Acre in northwest Brazil. In my prepared statement there is more information on those two projects in which the Banks are attempting at a late stage to improve the environmental aspects.

It is critical, therefore, Mr. Chairman, that the subcommittee continue and strengthen its oversight of the MDB's progress in implementing the environmental recommendations.

The most essential of the recommendations are the ones that concern staffing, inclusion of environment and public health ministries as well as NGO's and planning and implementation and a shift to more support for smaller scale environmentally more appropriate alternatives.

One recommendation which has not been implemented so far is No. 18 calling for an OTA study of environmental aspects of MDB activity.

One measure that this subcommittee could take would be to call for such a study at this time with a focus on examining ways in which the multilateral Banks could effectively promote smaller scale environmentally and social-culturally more appropriate technologies.

There are two other issues which were not addressed in the recommendations which we believe should receive greater scrutiny, the question of career incentives for MDB staff to address environmental concerns and the MDB's tight control of access to information on prospective projects.

We feel that the Banks must create institutional career incentives to assure that environmental whistle blowers are rewarded, which is not the case. We suggest the subcommittee might want to pursue this issue through inquires to the to the MDB's perhaps submitted through the Treasury Department and the U.S. Executive Directors.

We realize that the question of public access to information on MDB projects is not a simple one since the MDB's maintain that greater public access would undermine their relationships with some host countries.

We nevertheless think that the present situation could be much improved without impinging in any way on essential matters of confidentiality between the Banks and member nations. And a final issue which Barbara Bramble has touched on and which Robert Repetto will go into more detail about is the growing ecological stress placed on developing nations by their international debt. There has been some discussion of the possibilities of the MDB's and IMF facilitating debt restructurings for developing countries that would allow them credits against their debt service for domestic investments and conservation.

It has also been suggested that increased emphasis on structural adjustment and sector lending by the MDB's might also present opportunities to promote environmentally more sustainable policies in developing nations.

We urge the subcommittee not to ignore the environmental dimension of these debt issues in its deliberations this year, and perhaps a special hearing to examine in depth the environmental implications of the debt question would be extremely timely.

Mr. Chairman, that concludes my prepared statement.

Thank you very much.

[The prepared statement with attachments representing other national environmental organizations of Mr. Rich follow:]

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STATEMENT OF

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ENVIRONMENTAL POLICY INSTITUTE
FRIENDS OF THE EARTH
IZAAK WALTON LEAGUE OF AMERICA
NATIONAL AUDUBON SOCIETY
NATURAL RESOURCES DEFENSE COUNCIL
SIERRA CLUB

CONCERNING THE IMPLEMENTATION OF RECOMMENDATIONS
TO PROMOTE IMPROVED ENVIRONMENTAL PERFORMANCE
BY THE MULTILATERAL DEVELOPMENT BANKS

BEFORE THE

SUBCOMMITTEE ON

INTERNATIONAL DEVELOPMENT INSTITUTIONS AND FINANCE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

UNITED STATES HOUSE OF REPRESENTATIVES

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I. Introduction

Mr. Chairman, I appreciate very much the opportunity to appear before this Subcommittee to review the progress of the multilateral development banks (MDBs) and the Administration in implementing the Subcommittee's recommendations concerning "Multilateral Development Bank Activity and the Environment." I am Bruce M. Rich, senior staff attorney at the Environmental Defense Fund (EDF). I am testifying today on behalf of seven national environmental organizations: EDF, the Environmental Policy Institute, Friends of the Earth, U.S., the Izaak Walton League of America, the National Audubon Society, the Natural Resources Defense Council, Inc., and the Sierra Club. Together, these organizations have over one million members and supporters nationwide. EDF has over 47,000 members and the Sierra Club 365,000 members. The National Audubon Society has a membership of one half million, the Natural Resources Defense Council 48,000, Friends of the Earth, U.S. 20,000 and the Izaak Walton League of America, 45,000. The Environmental Policy Institute is a non-membership environmental research and advocacy organization.

At this time, Mr. Chairman, and with your permission, I also wish to submit for the record two prepared statements on behalf of Cultural Survival, an indigenous peoples' human rights group, by Dr. David Maybury-Lewis, Professor of Anthropology at Harvard University and President of Cultural Survival, and Stephan Schwartzman, an anthropologist associated with that organization.

The seven national environmental organizations I represent today wish to express their thanks for the concern and interest the Chairman and the Subcommittee have shown in promoting improved attention by the Multilateral Development Banks to environmental aspects of MDB activities. The oversight that this Subcommittee initiated in June, 1983 has resulted in the question of the MDBs' environmental performance being raised in a total of 14 hearings held by six Congressional Subcommittees over the past two and one half years. A critical benchmark in this oversight process was the preparation by the Subcommittee in late 1984 of 19 recommendations concerning multilateral development bank activity and the environment. These recommendations were a remarkable and highly praiseworthy accomplishment: they were prepared on the basis of an extensive public record on environmental problems in MDB projects generated by five special hearings held by this Subcommittee, and in substance they embodied the consensus of what measures the Subcommitee, the Administration and national environmental organizations concluded were needed to address serious inadequacies in the way the development banks were addressing environmental concerns. The

MDBs have had fifteen months to act on these specific recommendations, and more than two and one half years to take measures to improve their environmental performance since hearings by this Subcommittee first produced public evidence of widespread environmental problems.

Since any initiatives by the United States to promote environmental reforms within the MDBs must also have the support of other MDB shareholders to be successful, my statement will first give an account of growing interest and concern in a number of other major MDB donor countries concerning the need for improved attention to environmental matters in these institutions. I will then review what progress the multilateral banks and the Administration have made in implementing the 19 environmental recommendations of the Subcommittee. Although the Administration has made vigorous and highly praiseworthy efforts to implement and promote the recommendations, the banks themselves have done little of substance. Their record is for the most part deeply disquieting and disturbing. Worse, over the past year the MDBs have prepared and approved several huge projects which are the subject of international concern and outcry and which risk greater ecological and socio-cultural destruction than many previous projects which turned out to be environmental disasters.

The banks' continued neglect of ecological concerns in their activities should be a matter, in our opinion, of the utmost concern to this Subcommittee since it is resulting in poor projects, poor loans, and tragic squandering of precious investment resources for the developing world as well as in waste of U.S. taxpayers' money. There have been in the last year, however, a few indications that the banks are finally beginning to appreciate the urgency of the need to truly implement the commitments to sound environmental planning that they all have made in theory.

I will conclude my statement with several suggestions concerning how the Subcommittee might continue and enhance its critically important environmental oversight of the multilateral banks.

II. Heightened Concern with Ecological Aspects of MDB Activities in Other Donor Countries

From October 8 to November 8, 1985 a colleague of mine, James Barnes, and I visited six major West European countries to discuss the 19 environmental recommendations of the Subcommittee with senior civil servants in finance and foreign aid ministries, members of national parliaments and legislatures as well as with non-govermental organizations and officials of the European Community and members of the European Parliament. In preparation, copies of the Subcommittee print on "Multilateral Development Bank Activity and the Environment" were mailed out to many of the individuals we met with last August and the Treasury and State Departments cooperated in sending a cable to U.S. Embassies in the countries we visited to facilitate our meetings with key government officials and politicians.

It proved possible to meet with finance and/or foreign aid ministry officials with policy responsibilities for the MDBs in the Federal Republic of Germany, the United Kingdom, Denmark, the Netherlands and Belgium, and with representatives of environmental and indigenous peoples' rights groups in these same countries. France was the only country visited where we were not able to gain access to government officials concerned with MDB matters. We presented the recommendations of the Subcommittee as substantive points that could be a basis for an international, non-political effort to promote environmental reforms in the MDBs.

The recommendations were received positively by officials in the Finance ministries of Holland, Belgium and Denmark and by officials of the Ministry for Economic Cooperation in West Germany (the lead ministry in that country for the MDBs) as well as by officials in the British Overseas Development Administration (which, along with the British Treasury, gives instructions to the U.K. MDB Executive Directors). In the Federal Republic of Germany, Holland, Belgium, Denmark, as well as in the European Parliament we met with members of national parliaments and legislatures of differing political persuasions--liberal, conservative, and "green." Their response was uniformly positive to our requests for assistance in utilizing the domestic political process to help convince finance and foreign aid ministry ministries to support the major points in the Subcommittee's recommendations, as well as to raise the general level of public awareness about the need to bring a halt to planning and financing of environmentally destructive projects and to promote increased financing of environmentally beneficial projects.

One common, and somewhat disturbing theme that emerged in the course of our meetings with government officials charged with MDB policy matters is that they had very little resources or time to review MDB policies and projects from not only the environmental but also other perspectives. In several donor countries finance and foreign aid ministries noted that they received MDB project appraisal reports often only two or three days before projects were to come up for approval before the banks' boards of directors. They also noted that the Executive

Directors themselves were understaffed to adequately evaluate the enormous amounts of information contained in specific project documents, and that therefore independent evaluation of possible adverse aspects of projects could only occur if information were provided in a timely fashion by outside sources such as non-governmental environmental groups.

We therefore think that there is a dangerous lack of accountability of bank management and staff for environmental and other impacts of projects and that one way of remedying this would be to open up access to information on prospective projects to non-governmental groups in borrower and donor countries.

Up to now there has been an indication from only one group of countries--the Scandinavian--that officials there would be willing to undertake separate and independent initiatives to promote increased attention to environmental matters within the MDBs; the expressions of interest and support we received in the other countries we visited were linked to the U.S. assuming a leadership role in raising these issues in meetings with finance and foreign aid ministry officials and in meetings of the boards of executive directors of the MDBs. In other words, offcials indicated to us in most countries that their governments would probably support specific U.S. environmental proposals similar to the ones set out in the Subcommittee's recommendations in the boards of the MDBs.

In the course of our discussions in October and November it became clear that at that time the U.S. government had not employed the most effective fora or mechanisms to send clear signals about the importance of the Subcommittee's recommendations, nor had it requested other donor nations to support the measures proposed in the recommendations. A number of European government officials offered constructive suggestions as to how the appropriate signals could be sent in the near future, and expressed their probable support for such an international effort. Two of the most frequent suggestions we heard was that the U.S. could raise the matter of the MDBs' environmental performance and ways to improve it in forthcoming meetings of the G 5 and G 6--meetings at which representatives of the leading five or six Western industrialized countries discuss various international economic issues, including matters relating to the MDBs--and in the meetings that will take place over the coming year to discuss prospective MDB replenishments and capital increases.

I am pleased to report, Mr. Chairman, that both the Treasury and State Departments are beginning to take initiatives in this direction, and that a Treasury Department representative did indeed raise the MDB environmental issue at the last meeting of the G 6 in Paris in January. This is one example of the encouraging concern for MDB environmental matters that appears to be increasing in the Executive Branch. However, continued oversight of the Subcommittee in this regard would ensure that efforts to raise these issues with other donor countries do not lag.

Clearly, the next step is also to engage more closely a dialogue with government officials and non-governmental groups in the borrowing countries concerning the proposals set forth in the Subcommittee's recommendations. From the non-governmental side, this is already beginning to occur. Non-governmental environmental groups such as the ones I represent are increasing their ties with non-governmental groups in developing countries. In Brazil, a number of non-governmental environmental and indigenous peoples' rights groups were instrumental in providing groups in the U.S. with independent information on extremely serious environmental and Indian lands' problems in Northwest Brazil associated with ecologically disasterous settlement and road construction projects financed by the World Bank and the Inter-American Development Bank. A number of these groups have received the Subcommittee's recommendations, a summary of which has been translated into Portuguese. Increasingly, non-governmental groups in India are expressing concern over environmentally destructive projects in that country, a substantial number of which have been financed by the World Bank. These groups have contacted U.S. environmental organizations requesting assistance and information, particularly concerning the World Bank financed Narmada River Irrigation and Area Development Program--a huge scheme whose initial stage alone involves the forced relocation of nearly one hundred thousand people, mainly tribal minorities. A number of these Indian groups have also received the Subcommittee's recommendations and are particularly heartened by the recommendation concerning greater involvement of NGOs in the planning and preparation of environentally sensitive projects.

III. Encouraging Actions by the Administration, But Little Evidence of Real Environmental Progress by the Multilateral Development Banks

A. Progress of the Administration in implementing the recommendations.

The December, 1984 recommendations of the Subcommittee concerning Multilateral Development Bank Activity and the Environment set forth actual measures the Treasury and State Departments could take to promote better environmental review of MDB activites within the U.S. government, and described a number of specific measures and actions to be undertaken by the banks themselves at the behest of their U.S. Executive Directors.

The growing interest and concern the Administration has shown in implementing the recommendations is heartening and deserves praise. The organizations I represent today wish to publicly express their appreciation for the measures that the Treasury Department has taken, and more recently, for the increasing involvement of the State Department in these matters. For example, as the letter and attachments that the Treasury Department sent to the Subcommittee on January 17, 1986 indicate, both the Treasury and State Departments now have a staff person engaged primarily in the environmental review of multilateral development bank activities. The inter-agency MDB loan review process that is carried out regularly by the Working Group on Multilateral Assisance is also giving a higher priority to environmental concerns. We understand that the Treasury Department is directing the U.S. Executive Directors of the MDBs to call for board meetings at which the environmental performance of the banks and ways it can be improved will be at issue. We were recently briefed by Treasury on the measures it is currently undertaking, and another prime concern--that Treasury raise the issue of the banks' environmental performance with other major donors--appears to be a higher priority now.

One special concern of the environmental groups is recommendation number 16--that the U.S. MDB Executive Directors be instructed by Treasury to ensure that certain categories of projects that are clearly and unequivocally destructive of the environment in their final form are not approved, meaning that as a last resort the U.S. would oppose such projects. There was indeed a precident breaking example of such a project which came before the board of the Inter-American Development Bank in January, 1985.

In spite of disasterous and well documented environmental problems in a huge World Bank settlement and road construction project in Northwest Brazil known as Polonoroeste (which resulted in the World Bank temporarily halting over $250 million in loan disbursements last year for environmental reasons) the Inter-American Development Bank proposed in late 1984 $73 million in loans to to finance the paving of a three hundred mile extension of a penetration road from the Polonoroeste Program area into a pristine area of adjacent Amazon forest the size of Virginia. This road project, which will connect Porto Velho in the state of Rondonia in Northwest Brazil with the town of Rio Branco in Acre state, threatens the lands of more than 8000 Indians, none of whose territories have been demarcated or protected. It gravely risks accelerating still further deforestation in Northwest Brazil, which already has the most rapid rate of deforestation in the Amazon Basin. It threatens to transfer the already unsustainable influx of landless settlers from the World Bank Polonoroeste project area 300 miles farther west into another remaining pristine forest region--without any rational hope for the vast majority of the migrants to create an economically and ecologically sustainable agriculture.

The U.S. Executive Director of the Inter-American Development Bank abstained on January 23rd, 1985 from voting in favor of the loan because "the negative economic consequences associated with the environmental dimensions of [the] project were just too adverse to justify the loan proposal." A press briefing document of the Treasury Department cited among other things "the unsustainable nature of the agricultural development likely to take place on the poor soils in the region and the heavy deforestation expected with road construction." This was an extraordinary precident, since not only was it the first time that a U.S. Director of an international financial institution had raised environmental concerns in a vote on a prospective loan, it was also the first time in the 26 year history of the Inter-American Development Bank that the U.S. had not voted in favor of a loan to Brazil. The U.S abstention resulted in an effective veto of $14.5 million of the proposed loan, since that amount was to come from the Bank´s Fund for Special Operations, which requires a two thirds vote of the Board (the U.S. has 34.5% of the voting power on the Board).

It is unfortunate that the IDB´s management did not reconsider in depth the environmental implications of the loan before bringing it to the Board for a vote, but it is only vigorous and forceful actions such as this action of the U.S. IDB Executive Director last year that will give the management of these institutions the message that they must take environmental concerns seriously.

In fact, the strong U.S. concern voiced over this project appears to have had a positive effect in spurring the IDB and World Bank to support more comprehensive planning for protection of the environment and Indian lands in Acre before the road is completed. The prepared statement of Stephan Scwartzman, anthropologist, sets out in detail the current situation concerning MDB financed development in this region.

The U.S. abstention in the IDB last year, however, was an isolated instance. The MDBs are continuing to prepare and approve equally unsound and environmentally destructive loan proposals, such as the Indononesia Transmigration projects and the India Narmada River Development Program, with little in depth substantive review from the U.S. or other Executive Directors.

We would agree with the Treasury Department´s reply to the Subcommittee concerning Recommendation number 16--that the points raised in the recommendation (sustainable resource use, cross border impacts, endangered species, protected areas, and pesticide use) "constitute key considerations in evaluating projects." If the Treasury Department maintains that a "rigid application of criteria" to oppose specific categories of projects is not helpful, it is essential that the U.S. Executive Director's Office intervene earlier in the planning stages of such projects to ensure that they do not come to a vote before the MDB boards in an environmentally unacceptable form. We continue to think that one of the most effective ways the U.S. can spur better environmental preparation of future projects is, as in the case of the IDB Acre road loan, to oppose or abstain from approving loan proposals that are particularly egregious in their violation of the criteria set out in Recommendation number 16 of the Subcommittee. We urge the Subcommittee to exercise special scrutiny in the future over the U.S. position on such environmentally destructive loan proposals both before and when they come before the MDB boards for approval.

B. Little Progress by the MDBs in implementing the recommendations.

In contrast to the increasing commitment of the Executive Branch to promoting improved environmental quality in MDB activities, the banks themselves have done little of substance to commit more resources and institute effective procedures to environmentally assess their projects, nor to orient their lending in less environmentally destructive directions. Although the Treasury Department has tried to put the best face on the responses of the MDBs to its inquiries, a close reading of their answers reveals for the most part a distressing lack of substance, and statements which at times contradict statements of sister international institutions as well as independent information on the impacts of projects they continue to finance.

Four of the most important suggestions set forth in the Subcommittee's Decemeber, 1984 recommendations for the MDBs concerned increased environmental staffing, involvement of environment and public health ministries in project planning and implementation, involvement of non-governmental environmental and indigenous peoples' groups in project planning and implementation, and an increased commitment in lending policies to support environmentally beneficial projects.

1) Environmental staffing

Without adequate environmental staffing, it is impossible for the MDBs to assess the environmental aspects of their activities, regardless of the theoretical merits of their publicly stated environmental policies. In the documents the Treasury Department has forwarded to the Subcommittee concerning IDB environmental staffing, there does not appear to be any real focus of environmentally trained expertise in the IDB that is systematically involved in the review of environmentally sensitive projects. The IDB claims that the Environmental Management Committee performs this function, but if one examines the membership of this committee and the ways in which it purportedly functions one is left with the impression that it is not, in its present form, a credible or effective mechanism for systematic environental assessment and review. The members of the committee are senior level IDB managers with already extensive and wide-ranging duties and responsibilities; none of them have professional environmental expertise or training. To declare that high level IDB staff such as the General Counsel and the External Relations Advisor are also members of an Environmental Management Committee does not address the fundamental question of whether the IDB has professionally trained environmental staff who devote a substantial part of their efforts to the time consuming task of reviewing prospective projects early in the planning phase for their environmental impacts.

The description that the IDB management has sent to the U.S. Executive Director of the functioning of the Committee on the Environment is, to say the least, hardly illuminating: "From time to time, a Project Committee developing a specific loan meets with the Environmental Committee on projects where the environmental impact is judged to be of greater relavance than normal...." (Memorandum of Michael E. Curtin, Executive Vice President to Jose Manuel Casnova, April 22, 1985) Statements like this reenforce the suspicion that the committee is a bureaucratic invention whose primary function is to allow the IDB to claim in the face of outside scrutiny that it is addressing environmental concerns. If the IDB senior management in the Environmental Committee were really meeting with Project Committees on a systematic basis to review propspective projects for their environmental impacts, they would have time for little else, since three quarters of IDB lending in recent years has been in the environmentally sensitive areas of energy (mainly hydroelectric projects), agriculture, transportation, and mining and industry. And they would still need the constant technical advice of professionals trained to assess the environmental implications of projects in these sectors.

The IDB's management asserts that the functions of an environmental coordinator are really being handled by two members of the Environmental Commmittee--the Secretary and the External Relations Advisor. Again, both of these individuals have numerous other time consuming duties and functions within the bank, and neither have any professional expertise and training remotely relavant to ecological concerns. To assert that the bank's public relations advisor is one of the two key people performing the functions of an environmental coordinator is a disturbing indication of the lack of substance with which the IDB seems to view ecological concerns.

The proof of the functioning of the IDB's current environmental review process is in the product; if the Committee on the Environment were really functioning in any substantive sense, how it could it be party to presenting before the IDB's board last year a project so egregious in its environmental risks--the Acre road project--that the U.S. Executive Director abstained from approving it on environmental grounds--the first such instance in the entire 25 year history of the bank?

It would seem that the Environmental Committee in its present form could serve at best as a higher level locus of accountability and occasional review for the regular and systematic work of a staff with specific environmental responsibilities within the IDB. But this staff is not present.

In public statements in the past, the IDB has claimed it has 63 professionals and specialists in "environment related areas" (this figure was cited in the IDB's response to June, 1983 hearings on the environment held by this Subcommittee). But closer examination shows that these staff members are quite simply economists, engineers and other specialists whose experience is in such things as highway construction, electric energy production, establishment of cattle pastures, large scale agricultural development and other fields whose common denominator is often their potential negative impact on the environment. This kind of sophistic and inconsistent response is an insult to the extreme importance of the urgent need for improved environmental review in IDB project planning.

Turning to the question of environmental staffing in the World Bank, nothing has changed since the Subcommittee first began examining this topic in June, 1983. This Subcommitee explicitly noted in its "Draft Recommendations on the Multilateral Devèlopment Banks and the Environment" that "[g]iven the magnitude of the World Bank's operation, an environmental office with a staff of five cannot possibly be expected to adequately provide for all aspects of environmental issues facing the Bank." Nevertheless, the World Bank's senior management sent a response to legitimate and substantive environmental staffing suggestions that can be best described as a brush off. It starts by stating that the bank has considered these suggestions in the past and ends by stating it will consider them in the future "along with other approaches that may surface."

Nor is there any sign of increased environmental staffing at the Asian Development Bank, which has an Environmental Unit of only two persons in a total staff of over 1300 reviewing over two billion dollars worth of projects a year. Only at the African Development Bank has there been concrete progress, since that institution has one environmental advisor now as opposed none at the time the Subcommittee drew up its recommendations.

In short, Mr. Chairman, the MDBs have made virtually no progress on the critical question of adequately trained and supported environmental review staff, in spite of cogent and reasonable suggestions and queries by this and other Congressional Subcommittees and the U.S. Treasury.

I would like to cite for the record one fact which more than any other symbolizes the current priorities of the MDBs concerning the importance of environmental staffing. The World Bank employs nearly four times more professionals in its public relations division--known as Information and Public Affairs--which has a professional staff of at least 25, than in its environmental office, which is staffed by seven professionals, only three of whom are involved in any systematic project review. In fact, the World Bank has almost twice as many professionals in its Speechwriting Unit -five- than the environmental office employs in attempting to review prospective projects in key lending sectors for environmental impacts.

2) Inclusion of ministries of the environment and public health in project planning.

The recommendation concerning increased involvement of ministries of the environment and public health in project planning and implementation is one of the most important. If the multilateral banks were to insist on inclusion of these traditionally weak agencies in developing countries in environmentally sensitive projects, this would contribute significantly to strengthening the domestic capacity of host countries to deal with environmental and public health problems associated with development, even in projects not financed by the MDBs. But the responses of the banks do not clearly indicate in every case what initiatives the MDBs are taking, and the response of the World Bank in particular is almost totally lacking in substance.

The World Bank deftly notes that sometimes one ministry alone may be consulted, sometimes three or four, but that "[t]he general principle, however, is that as a matter of routine, Bank staff attempt to to seek out those agencies in government that are crucial for the achievement of the range of project goals, and bring them into the planning process as required." Mr. Chairman, I defy anyone to glean a conclusion from this statement as to what on earth the World Bank is actually doing to include Ministries of the Environment and Public Health more regularly in project planning.

The Asian Development Bank notes in its response to this issue that "[i]n some DMCs, involvement of the national environmental agency is mandatory for large scale development projects and the agencies thsu become involved in bank supported programs and project planning." Although increasingly developing countries are promulgating environmental assessment laws--Mexico being a fairly recent example--these laws are often not implemented in large scale development projects such as those financed by the MDBs unless the MDBs themselves insist on their enforcement and on the legally required participation of the national environmental agency. The active seeking out of environmental and public health ministries by the MDBs is essential to ensure in some cases what is simply the legally required role of those agencies in planning large projects.

In short, Mr. Chairman, this particular recommendation should receive closer scrutiny from the Subcommittee in its continuing oversight of these issues.

3) Inclusion of non-governmental conservation and indigenous peoples' groups in project planning and implementation.

Along with consultation with environment and public health ministries, inclusion of non-governmental conservation and indigenous peoples' groups in project planning and implementation could greatly contribute to improving the enviromental quality of MDB projects. Again, there is little substance to back up the statements of the banks, particulary that of the World Bank. The World Bank asserts that "[t]he Bank as a general policy has been striving in recent years to identify the role that such organizations may play in project identification, design and implementation." But the Treasury Department itself noted in its letter on this issue to the banks that "the Treasury staff's review of bank projects over the last two years suggests that such organizations are not being systematically consulted. Occasional conversations with bank project staff members suggest, as well, a general lack of informal contact with borrowing country conservation and indigenous peoples' organizations."

The World Bank's record in really utilizing NGOs is, with a few exceptions, abysmal. I say this because for nearly six years now the World Bank has had discussions with non-governmental development groups concerning the role they could play in bank projects, with little substantive progress. I wish to submit for the record, with your permission Mr. Chairman, excerpts of a memorandum to a group of development NGOs prepared by Washington based organization, The Development Gap for Alternative Policies. It basically accuses the World Bank of engaging in rhetoric but little else in its dialogue with development NGOs. It notes that after three years of meetings in 1983 the Bank published a "Progress Report" which, in the words of this pariticular NGO, "like others before it, makes empty claims about progress to date that could only be targeted at an outside audience unfamiliar with the Bank and the discussions over the past three years....The fact is that very little has happened over the three year period and it is frankly annoying to hear Bank staff continue to double talk instead of honestly laying out the constraints, or resistance, within that institution and working cooperatively to overcome them. Three years of 'raising consciousness' and 'identifying typical cooperation opportunities, possible obstacles and constraints of a general nature' is not much of a record, and one would think that the Bank would be embarrassed rather than proudly advertising the fact."

The memorandum goes on to note that statements in recent Bank annual reports claim that 'cooperation between the Bank and [development] NGOs has gained significant momentum' and that "[t]his is an example of the public relations use that the Bank will continue to derive from this drawn out dialogue, and the NGOs may want to seriously consider taking that institutinon to task for publicly misrepresenting the situation." Although this memorandum reflects the situation in World Bank relations with development NGOs as it stood over two years ago, we have been told by these same groups that nothing more of substance has occurred over the past two years and that a number of the development NGOs with which the Bank has been conducting a 'dialogue' for nearly six years are considering walking out on the meetings in the near future since they serve no productive purpose.

If the World Bank's record in working with development oriented oriented NGOs has been so characterized by rhetoric but little else, it is hard to be optimistic about the real commitment behind the extremely vague expressions of interest contained in the Bank's September 23, 1985 correspondence with the Treasury Department. The response of the Asian Development Bank is at least more forthcoming in that it openly states that "it is expected that the use of services of NGOs will be modest."

Yet the MDBs can feasibly promote the use of NGOs in smaller scale, environmentally more beneficial projects despite their reluctance to do so. The Inter-American Development Bank in this respect is a leader among the MDBs, since for a number of years it has funded smaller scale projects managed by non-governmental groups and small enterprises through its Small Projects Program, as the IDB managment points out in their November 21, 1985 response to the Treasury Department. This is exactly the kind of program that all of the MDBs should be promoting on a much larger scale. The IDB has also indeed made progress in becoming more open to dialogue with environmental and other NGOs over the past two years.

4) Promotion of enivronmentally beneficial projects.

The recommendations with the most far reaching implications for promoting development that will truly be both economically and environmentally sustainable in the long term are those (numbers 12 and 13) calling for a greater proportion of funding for environmentally beneficial projects and for more projects that involve the use of smaller scale, alternative technologies. The Treasury Department notes rather circumspectly in its evaluation of the Banks' performance in this area that "[i]t is not clear, however, that such projects are being planned and implemented in all, or even most cases where the opportunity exists." We will be more blunt and say that the MDBs are continuing to finance large-scale, environmentally destructive projects--many of dubious long term economic benefits--and are neglecting smaller scale, evironmentally beneficial alternatives even when they are economically less risky.

A case in point concerns the massive agricultural resettlement projects in tropical forest areas which the MDBs, particularly the World Bank, continue to finance in spite of the dismal record of failure of such projects over the past twenty years. The most recent and notorious example of such a failure is the World Bank financed Polonoroeste Program in Brazil, a gigantic resettlement and road construction scheme in an area of Amazon forest three quarters the size of France for which the Bank committed $434.4 million in loans. I will not go into detail about the problems in those loans, which have been widely publicized, except to note that the project has been a colossal economic failure in addition to resulting in massive deforestation in an area the size of Great Britain and untold human suffering through disease (there are now 200,000 cases of malaria in the World Bank project area and the state of Rondonia--the focus of the Bank project--was recently declared a national emergency area) and soils inadequate for sustainable agricultural production. Yet the World Bank approved last May, in the face of growing international controversy, a loan of $160 million to finance site selection and planning for the resettlement of 300,000 families in Indonesia from Java to largely pristine tropical forest areas in New Guinea (Irian Jaya) and Borneo (Kalimantan).

5) Indonesia Transmigration loans.

The Fifth Indonesia Transmigration loan, as it is called, has raised cumulative World Bank financing of what is the largest resettlement scheme on earth to nearly $600 million. The Asian Development Bank has also been involved in the financing of Transmigration. Although results of earlier Bank financed transmigration projects have been mixed, due to the relatively poor quality of soils typical of tropical forest areas, the Bank has justified its continued support by claiming--in its response to earlier hearings of this Subcommitee for example--that it is trying to make the Indonesian government's transmigration program more sound environmentally. But the program--whose most immediate environmental impact will be massive deforestation in the largest remaining rainforests in Asia--is ecologically disasterous in its very conception.

Now is not the time or the place, perhaps, to digress into great detail about the adverse environmental, socio-cultural and economic implications of continued World Bank financing of Transmigration. Perhaps a separate hearing should be held to examine more closely this and other disasterous projects the MDBs have recently approved. Some additional material on specific projects is included in the statements that Cultural Survival has submitted for the record. I would like to call the Subcommittee's attention for the record, however, to some aspects of the latest World Bank Transmigration loan that should be subjected to more scrutiny:

1. The loan of $160 million has no appraised rate of economic return, but the Bank asserts in its appraisal report that it can be justified because of its unquantifiable economic benefits--but no attempt is made to evaluate and compare what may be greater unquantified environmental and socio-cultural risks (Staff Appraisal Report, Indonesia Transmigration V Project, pp. 36 and 37).

2. 80% of the loan is to go for consulting services, a substantial portion of which will be purchased from expatriate firms in Northern Europe. The Bank claims in its appraisal report that one of the major objectives of the project is "the development of the national consultant industry by the association of foreign and national consultants under the very large consultant component." (Appraisal Report, p. 10)

3. The Bank's appraisal report notes that one of the "unquantifiable benefits" of Transmigration has been that, through resettling large numbers of people to remote regions, it "has increased the economic justification of infrastructure such as roads and bridges in sparsely populated areas." (Appraisal Report, p. 6)

4. The Bank notes in the Project Appraisal Report that resettlement costs will be the higher than previous transmigration projects--$7000 per family--because of geographical remoteness (Appraisal Report, p. 35), and, what the Bank does not mention, lower average soil quality.

5. The Bank's own estimated economic rates of return for the agricultural activities of the settlers is below its estimates of the opportunity cost of capital in Indonesia (10%) and thus also what it would normally directly finance (Appraisal Report, p. 37) But the Bank again justifies its financing of the planning and site selection for this phase of the scheme because of numerous "unquantifiable benefits."

6. The Bank notes that there is a substantial risk that the Indonesian Government will not be able to meet its ambitious plans of resettling 300,000 families within the timeframe of the Bank financed planning activities: "The major project risk would be that the GOI may be unable to use the information provided under the project in a timely manner due to financial and managerial constraints." (Appraisal Report, p. iv.)

6) Utilization of alternative technologies.

Let us examine one more example of the gap between rhetoric and reality with respect to the MDBs implementing meaningful changes in their operations and policies to promote projects that utilize environmentally more beneficial appropriate technologies. Renewable energy is one area where the World Bank stated in its response of September 23, 1985 that it had made "considerable progress" to ensure that 'light capital alternatives' "are considered in project selection, design and implementation as appropriate." The response of the Bank referred to an attachment which contained specific examples of this progress. On page 9 of the attachment, we find that "The World Bank renewable energy program is focussing its activities in three areas" of biomass, wind and Household/Rural Energy, that there are number of "specific tasks in each of the major work program categories" which include technical assistance, aid coordination, Advisory/Review, including "country strategy contributions" and "project related advice to regions." To the uninitiated this sounds vaguely impressive, and one might conclude that the Bank is financing a lot of activity in the renewable energy area, though it is hard to determine exactly what.

But in reality, Mr. Chairman, the World Bank has not financed a single free-standing project in the area of small scale, 'light capital' renewable energy in recent years, including last year, even though energy traditionally has been its second most important lending sector. A number of representatives of environmental groups in Washington met with World Bank energy staff last year to discuss the Bank's energy lending, and we were told quite directly that not only had the Bank financed no free standing projects in this area, but that loan amounts even for renewable energy components in projects were insignificant in relation to total Bank energy lending. We were also told that no major changes were forseen in Bank energy lending in the near future, but that the Bank would continue "to look into" alternative possibilities--as it has for years in the past. With your permission, Mr. Chairman, I wish to submit for the record the first page of an internal World Bank memorandum which breaks down Bank energy lending, totalling over ten billion dollars, for the period 1976-1984. As one can see, large scale hydro schemes, coal and transmission and distribution account for over $8.2 billion of this amount.

Mr Chairman, we have seen no change in MDB lending policies such that they would support a greater proportion of environmentally more beneficial activities. If anything, the banks, the World Bank in partcular, have approved over the past year a number of projects that threatened large regions of the global environment on a scale even greater than what has occurred in in the past. For examples, I would like to cite the Acre road project and the Indonesia Transmigration loans already referred to above, and recent World Bank approval of funding last year for the initial phases one of the largest irrigation and dam shemes ever designed--the Narmada River Development Program in Western India. Two World Bank loans approved last year totalling $450 million for this program will finance dams that as their first impact will forceably displace nearly 100,000 people, mainly tribal minorities. More information on the adverse impacts of these projects is contained in the material submitted for the record by Cultural Survival.

Yet, there already exist possibilities for promoting alternative, environmentally sustainable projects that the banks are not using. As an example, let me cite the Biomass Users Network (BUN), which is a new organization of developing countries concerned with establishing an environmentally more sustainable energy and agricultural future. Representatives of

31 developing nations are members of the BUN, whose mission is to strengthen national capabilities in developing countries to increase the production and use of biomass resources. Pilot project studies of the BUN are focussing on alternative development strategies such as utilizing and restoring arid and degraded lands for biomass production and producing biomass fuels for commerical and domestic uses. With your permission, Mr. Chairman, I wish to submit for inclusion in the record more detailed information on the Biomass Users Network.

7) Failure to implement the 1980 environmental Declaration.

A fitting summary of the Banks' real progress over the past fifteen months in improving their approach to environmental matters can be found by scrutinizing their responses to recommendation number 15, concerning their adherence to, and implementation of the 1980 Declaration of Environmental Policies and Procedures Relating to Economic Development. As the Treasury Department points out, "the Declaration is an undertaking by the development banks to carry out the several other activities described... in the [Sub]Committee's Report." The World Bank makes the claim that "[t]he principal impediment to the effective implementation of the Declaration appears to be the unwillingness or inability of the management of some of the [signatory] institutions to lend support and provide resources necessary for its attainment....To date, much of the work of the CIDIE [the Committee of International Development Institutions on the Environment formed to oversee progress in implementing the Declaration] has consisted of the World Bank assisting the other institutions to mount an environmental effort in keeping with the Declaration...." The Inter-American Development Bank claims that it "continues to adhere to the Declaration's precepts" and that, as an example, the IDB's Environmental Management Committee....makes sure that, in projects financed by the Bank, environmental considerations are incorporated at the earliest possible stage and measures are taken to avoid or mitigate negative effects."

But, Mr. Chairman, at the last meeting of the CIDIE in June last year, which took place in Washington, the Executive Director of the United Nations Environment Programme--which serves as the CIDIE Secretariat--strongly criticized the multilateral members of CIDIE for their inaction in implementing the various actions called for by the Declaration they so solemnly adhered to in 1980. He noted "There has been a distinct lack of action by several multilaterals....The main failing seems to be," he continued, "that members of the CIDIE have gone along in principle more than in major shifts in action." He noted as an example that nearly four years after the multilateral CIDIE members proposed that the World Bank's Economic Development Institute hold a training course on the integration of environmental concerns in development planning, the World Bank had still not implemented the course--whose total cost would have been $120,000. Such a course would be one important step, Mr. Chairman, in implementing recommendation number 6 in the Subcommittee's December, 1984 Report.

The head of UNEP went on in his June, 1985 address to the multilaterals to portray a discouraging record in their attention to environmental concerns. He pointed out that "[e]nvironmental impact assessments are not yet an integral part of all or even major development projects...." He expressly referred to growing concern in donor countries with this inadequate record and added that there have been "clear signals from all governments, developing and developed" that multilateral aid agencies must do more than just talk about the environment.

With your permission, Mr. Chairman, I wish to submit the text of Dr. Tolba's speech for inclusion in the record, since it is as good a summary as any of the lack of progress of the MDBs in implementing the Subcommittee's environmental recommendations.

IV. Conclusion and Recommendations

Mr. Chairman, the organizations I represent today believe there is an increasingly serious credibility gap between the stated policies and intentions of the MDBs concerning the environment and their real commitment of resources and institutional priorities to address these issues. The picture is not completely bleak--there have been isolated instances of progress over the past year. I might cite the World Bank's belated but good faith attempts to mitigate the environmental damage that its loans in Northwest Brazil helped to unleash and the efforts of the Inter-American Development Bank to ensure that the Brazilian authorities in the state of Acre prepare an adequate environmental protection plan before the IDB begins disbursements for road construction and improvement activities in that region. These positive measures, it must be pointed out, have occurred however in the context of projects that have become internationally notorious for their essential ecological destructiveness; they are only mitigatory measures for basically unsound development. Moreover, the banks have promoted such mitigatory measures with increased vigor largely because of intense outside scrutiny and pressure, exercised mainly by the

United States but also more and more by other MDB member countries.

It is critical, we believe, that the Subcommittee continue and strengthen its oversight of the MDBs' progress in implementing the environmental recommendations. The most essential of the recommendations are the ones that concern staffing, inclusion of environment and public health ministries as well as NGOs in planning and implementation, and a shift to more support for smaller scale, environmentally more appropriate alternatives.

One way in which this oversight might be continued would be for the Subcommittee to hold a hearing later this year to examine the environmental and human rights problems that are a matter of increasing international concern and protest in a number of recently approved MDB projects. Two programs in particular that are of special and immediate concern are the World Bank financed Indonesia Transmigration and India Narmada River Development schemes.

Another critical area of concern is linked to the recommendations concerning alternative projects, since they address not just mitagatory measures and procedures but the inherent environmental soundness of MDB lending operations. We believe that the current pattern of MDB lending is not only unnecessarily destructive of the environment and socio-cultural rights, but also that many of the worst projects are are in the long term economically unsound. The situation in Africa is a critical example. A recent study by the Office of Technology Assessment concluded that foreign assistance in Africa will result in more major failures if it continues its "high technology, capital instensive" approach, an approach which is above all characteristic of MDB operations. The report, "Africa Tomorrow: Issues in Technology, Agriculture and U.S. Foreign Aid," was commissioned by the House Select Committee on Hungar. It concludes that there is an emerging consensus that future development efforts in Sub-Saharan Africa should be small-scale, labor rather than capital intensive, resource conserving, and better adapted to traditional agricultural methods.

One recommendation which has not been implemented so far is number 18, calling for an OTA study of environmental aspects of MDB activities. One measure the Subcommittee could take would be to call for such a study at this time, with a focus on examining ways in which the MDBs could effectively promote smaller scale, environmentally and socio-culturally more appropriate technologies.

In the first part of this statement, we noted that there is increasing interest in other MDB member countries in this

Subcommitee's environmental oversight and recommendations. One possible step towards furthering this interest would be for the Subcommittee or its Chairman to write to parliamentarians in other countries who have already expressed an interest in these matters to appraise them of the Subcommittee's continuing oversight of environmental aspects of MDB activities. We would be happy to provide names and adresses of such interested members of national legislatures and parliaments.

We believe that there are two other issues which were not addressed in the recommendations which should receive greater scrutiny: the question of career incentives for MDB staff to address environmental concerns and the MDBs' tight control of access to information on prospective projects. Currently, there are great pressures on MDB staff to expedite the project cycle and avoid delays in loan preparation and disbursement. A project officer has no incentive to incorporate environmental concerns into project planning, since this risks slowing down the project cycle. The banks must create institutional and career incentives to ensure that environmental whistle blowers are rewarded, which is not now the case. We suggest that the Subcommittee might want to pursue this issue through inquiries to the MDBs submitted through the Treasury Department and U.S. Executive Directors.

Greater access to information on MDB projects by concerned and affected interests could do much to improve the quality of MDB lending. The banks withhold information on projects from the public and from national legislatures in member countries. Public discussion of projects prompts the MDBs to take a posture which is often perceived as defensive, uncommunicative and arrogant. Such criticism should instead be seen as an opportunity for dialogue and the development of information and ideas which could improve the quality of MDB lending. We realize that the question of public access to information on MDB projects is not a simple one, since the MDBs maintain that greater public access would undermine their relationships with some host countries. Nevertheless, we think the present situation could be much improved without impinging in any way on essential mattters of confidentiality between the banks and member nations. A fruitful hearing might be held to examine ways in which access to information on MDB activities could be increased for national legislatures, NGOs, and academic bodies in both developing and developed nations.

A final issue that is of increasing interest and concern to the environmental groups I represent is the growing ecological stress placed on developing nations by their international debt, which can only be repaid with export earnings. Increased pressure to expand exports at the cost of domestic consumption creates pressures to unsustainably exploit the resource base of debtor nations in numerous direct and indirect ways. There has been some discussion of the possibility of the MDBs and IMF facilitating debt restructurings for developing countries that would allow them credits against their debt service for domestic investments in conservation. It has also been suggested that the increased emphasis on structural adjustment and sector lending by the MDBs might also present opportunities to promote and further environmentally more sustainable policies in developing countries, since these loans are characterized by their policy oriented conditionality. If environmental and natural resource concerns are not injected into the ongoing debates on debt restructuring and policy oriented non-project lending, we fear that pressures on developing nations to destroy their natural resource base will be greater than ever before. We therefore urge the Subcommittee not to ignore the environmental dimension of these issues in its deliberations this year, and indeed, we think that a special hearing to examine in depth the environmental implications of the debt question would be extremely timely.

Mr. Chairman, that concludes my prepared statement. Thank you very much.

(EXCERPTS)

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24 June 1983

1. Introduction

1.01. When the World Bank-NGO dialogue began in 1980, our organization had just completed four years of work at the Bank, demonstrating in the field the feasibility of funding NGO activities as part of IBRD projects. We participated in the first Bank-NGO seminar, knowing from experience how resistant the Bank was to making any concrete policy changes in this area. At that meeting and subsequently in a series of six memoranda, we sought to advise the NGO Committee on IBRD operations, its institutional constraints, what the dialogue might or might not yield, and how best to negotiate with the Bank. We have tried to be constructive in our comments because we believe the dialogue to be worthwhile in principle, but the lack of real progress to date has confirmed our worst fears.

1.02. A reading of the Bank's recent "First Progress Report" prompted a re-reading of the memos we prepared. It is distressing how the same issues -- i.e., all manner of non-action -- are still with us. We advise a review of the memos if only to see how far we have not gone, how few questions have been answered; we will try to limit our reiteration of these reports in this paper. What we do know is that for two years the Bank held out the possibility of a grant facility that was never a real option, and that the promised pilot projects -- never a good idea to begin with -- are now probably out of the question, as well. A voluntary NGO mechanism to connect Bank project officers with NGOs in the field was rejected on the spot. So we are left with workshops -- which are yet to yield any fruit despite some promise -- and the October meeting on development policy.

1.03. This paper will address three of the four agenda items suggested by the Bank for that meeting. We are assuming that, because the question of the relationship between country and sector policies and specific operational activities falls under "NGO views" on the agenda, the Committee is being asked to comment on the internal organization of the Bank and the best point of intervention and involvement for the NGO community within that institution. This we have attempted to do.

1.04. More perplexing is that the NGOs should be asked to comment on their concern about current trends in concessional aid. We were told that this point related to IDA financing, but it is the Bank, not the NGOs, that is particularly concerned about this issue. The Bank's worries, however, are

IDA funds were being put to positive use. On the other hand, with the Bank increasingly following the private-sector, marketplace model pursued by the Reagan Administration, and with IDA working with the economically most vulnerable of governments, the NGOs may want to give a second thought about what they are tacitly supporting. Or they may want to consider advocating the use of IDA funds for poverty-related, non-revenue-producing projects exclusively, as was originally proposed two decades ago, and/or for NGO projects that need some degree of subsidization. While this is not an impossibility, as the Articles of Agreement do not prohibit such lending, the Committee would face the same problem it had with the grant facility proposal of getting the Bank to take the issue to its Board of Governors. And this is quite unlikely, given the reticence of the Bank Committee to forcefully push the NGO issue even among the Bank staff itself.

4. IBRD Progress Report

4.01. In light of the changes in the International Relations Department at the Bank and the apparently constructive East African education workshop in Nairobi, the IBRD's revised draft of its "First Progress Report" on IBRD-NGO Cooperation is a great disappointment. It was hoped that we had passed the public-relations phase of the dialogue, but this paper, like others before it, makes empty claims about progress to date that could only be targeted at an outside audience unfamiliar with the Bank and the discussions over the past three years.

4.02. From the very beginning, the piece is deceptive in its language. The Bank may have decided formally only a year ago to "systematize and expand operational cooperation with NGOs," but, as far as the latter are concerned, such cooperation has been the basis of the dialogue since 1980. The fact is that very little has happened as a result of the dialogue over the three-year period and it is frankly annoying to hear Bank staff continue to double talk instead of honestly laying out the constraints, or resistance, within that institution and working cooperatively to overcome them. Three years of "raising consciousness" and "identifying typical cooperation opportunities, possible obstacles and constraints of a general nature" is not much of a record, and one would think that the Bank would be embarrassed rather than proudly advertising that fact. As far as the identification of opportunities for project cooperation is concerned, nothing structured has emerged after all this time, and a continued focus on an exchange of information portends further non-action.

4.03. In addition, the NGOs must be tired by now of the Bank citing the same list of sixty or eighty cases of NGO involvement in IBRD-financed projects without putting forth a strategy of how to build on this experience. Rather than trying to impress and telling the NGOs how such cooperation happens to occur, it should long ago have processed all this case material and gotten on with making it occur. We need neither case material nor new project experimentation: as we have pointed out in past memos to the NGO Committee, there is already enough project experience upon which to act.

4.04. The Bank is similarly self-congratulatory on the subject of non-project cooperation, and again without cause. It speaks of NGO profiles it has prepared and seminars to which such groups have been invited, but no follow-up action is even proposed. Worse yet, it suggests that information from the NGOs has had considerable circulation at the Bank, only to cite widely distributed Bank documents as examples. Typical of the self-congratulatory attitude is the fact that the Bank makes reference in the progress report to statements in recent Bank Annual Reports that "cooperation between the Bank and NGOs has gained significant momentum." This is an example of the public-relations use that the Bank will continue to derive from this drawn-out dialogue, and the NGOs may want to seriously consider taking that institution to task for publicly misrepresenting the situation.

4.05. The conclusion of the report repeats all the non-progress accomplished in the "initial phase of the dialogue" and calls these "specific results" encouraging. Cooperation policies, monitoring mechanisms, the expansion of mutual knowledge -- these are all dialogue-related concepts that do not commit the Bank to any modifications in its operations. Attempts to get past the rhetoric and toward real collaboration -- such as a grant facility and a structured relationship in which the Bank would make use of an NGO mechanism to identify and fund Third World NGO projects -- have gone nowhere. Now the dialogue will be broadened to include policy issues, and, if the NGOs are not on top of things, these discussions will go nowhere, as well.

4.06. The Bank will discuss development policy issues until they run out of volunteers from their ranks, but what it does not want to discuss is Bank policy. It will be happy to talk about -- even debate -- global economic issues, urgent priorities in development assistance, basic human needs strategies, maximizing the human element in development, the role of PVOs in national development policy, etc., etc., because this will not commit it to any meaningful action. (For example, it is already backing off project-level cooperation as a focus before anything has even begun to develop in this area). If there is to be a policy dialogue it has to be a prelude to action. The Bank must be forced to describe the changes that are necessary within that institution in order to include the NGOs in a collaborative attempt to improve its performance in the above areas.

4.07. Stand warned, however: the Bank is good at this game, as well. Regarding the global economic situation, it will roll out the statistics. As for basic needs, it is great

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: September 25, 1984

TO: Distribution Below

FROM: Nigel Green, EGY

EXTENSION: 75094

SUBJECT: Summary of FY76-84 Bank Power Lending

Attached for reference purposes is a list summarizing the Bank (including IDA) power projects approved for lending in the eight-year period FY76-84. Additional copies are available (Ms. Fernandez 75089).

The following table summarizes the lending by fiscal year and by type of power system component. On this occasion an estimate of the technical assistance component, present in most projects, has been separately shown for the period FY80-84.

FY76-84 WORLD BANK GROUP LENDING FOR ELECTRIC POWER

FY	Projects	Hydro	Oil/Gas	Coal	Geo-thermal	T&D	Rural	Technical Assistance	Total
	$ Millions								
76	20	208	71	-	19	592	59		949
77	17	186	142	130	-	470	24		952
78	19	348	97	305	-	256	140		1,146
79	19	183	243	495	9	191	234		1,355
76-79	75	925	553	930	28	1,509	457		4,402
% Share		21.0	12.6	21.1	0.6	34.3	10.4		100
80	25	780.9	52.0	835.2	37.6	564.3	87.0	35.3	2,392.3
81	17	845.6	5.0	65.0	0	225.9	124.9	56.6	1,323.0
82	21	106.8	165.3	698.5	-	708.2	395.3	47.1	2,121.2
83	15	495.0	38.8	256.0	44.4	680.8	29.6	40.4	1,585.0
84	24	1,125.9	178.2	493.0	-	540.2	238.7	75.3	2,651.3
80-84	102	3,354.2	439.3	2,347.7	82.0	2,719.4	875.5	254.7	10,072.8
% Share		33.3	4.4	23.3	0.8	27.0	8.7	2.5	100.0

Attachment:a/s

Distribution

Messrs. Rajagopalan PPD, Bronfman, Wackman EAP, Bouhaouala, Davis WAP, Turnham, Beach AEP, Gali, Brandreth ASP, Dewey, Reekie EMP, Jennings, Moscote, Linder LCP, Callejas OED, Bourcier, Heron, Fish, Bharier, Dosik, Saunders, Kalim EGY

BUN FACT SHEET

The Biomass Users Network (BUN) is a new organization of developing countries concerned with establishing a sound energy and agricultural future.

The founding members of the organization based on the resolution at the inaugural meeting in Bangkok, Thailand, October 1985 are:

- Burkina Faso
- Burundi
- China
- Costa Rica
- Dominican Republic
- Egypt
- Fiji
- Grenada
- Guatemala
- Honduras
- India
- Indonesia
- Jamaica
- Malaysia
- Monseratt
- Nigeria
- Pakistan
- Panama
- Philippines
- Rwanda
- Seychelles
- St. Lucia
- Somalia
- Sudan
- Tanzania
- Thailand
- Tunisia
- Vanuatu
- Western Samoa
- Zambia
- Zimbabwe

The mission of the Network is to further strenghten national capabilies in developing countries to increase the production and use of biomass resources.

To fulfill its mission the organization has developed a decentralized operating structure consisting of a working board of directors, topical working groups, regional working groups, and specialized task forces. A small secretariat will provide management and coordination.

All member countries must be willing to provide in kind contribution to the network e.g. loan of experienced personnel, making information available on their activities in the biomass area, etc.

The Network is controlled by an eleven member board of directors serving a three year term with one option for renewal:

Dr. Worphat Arthayukti*, (Secretary)
Associate Professor
Chulalongkom University
Thailand

Dr. Albert Binger* (Executive Officer)
Director
Agricultural Development Agency (Agro 21)
Jamaica

Gen. Pedro Dumol
Administrator
National Electrification Authority
Philippines

Dr. Pompilo Furtado
Head
Energy Division
Technological Center Foundation
of Minas Gerais
Brazil

Prof. Gordon Goodman*
Executive Director
Beijer Institute
Royal Swedish Academy of Sciences
Sweden

Prof. David Hall*
Professor
Kings College of London
United Kingdom

Dr. Ahmed Hood* (Treasurer)
Researcher
Renewable Energy Research Institute
Sudan

Mr. Rafael Rodriguez
Member
National Energy Commission
Dominican Republic

Dr. Alvaro Umana* (Chairman)
Associate Professor
Central American Institute of
Business Administration
Costa Rica

2 additional members are to be elected.

* Executive Committee members

Each individual member must participate in at least one working group and one task force. The rule is no membership without participation.

BIOMASS USERS NETWORK

Workplan 1986–1988

1. Introduction: The Need for BUN

Biomass is the principal source of energy, and agriculture the major industry in the developing world. The uncontrolled cutting of trees for fuel and the growing use of agriculture waste and dung for home cooking are contributing to the erosion and degradation of farmland. The declining productivity of agricultural land and the low world prices for agricultural commodities are causing migration from rural to urban areas, contributing to a social, political, and economic crisis in many developing country cities.

The combination of high oil import bills and debt service payments with low revenues from agricultural exports is draining the capital necessary for development. Developing countries, most of which are located in tropical climates, contain the world's richest biomass resources, but these resources are being squandered through mismanagement.

Aid agencies in the developed world recognize that deforestation, agriculture, energy, and foreign exchange are vital concerns for developing countries, but their attempts to help have often been ineffective. Assistance programs have failed most often because planners have failed to understand the needs and conditions of developing countries and to appreciate the importance of integrating forestry, agriculture, and energy production into a biomass management program.

The technology developed by the North has often been inappropriate for use in the South. In addition to the grossest examples of technology that is too expensive, too complex, and too energy-intensive for developing country use, there are well publicized failures in such low-technology products as cook stoves. Making the technology inexpensive, simple, and energy-efficient is a step in the right direction, but it is not enough.

Technology must be adapted to the social, institutional, cultural, and economic conditions of developing countries. Understanding the idiosyncracies of developing countries is difficult for even the best-intentioned of Northern development officials and is more than we can ask of technicians. And even the perfect technology will require training of the people who will use it. The cultural barriers to effective communication and education are as important as the technical considerations.

Transferring technology from U.S. government research programs to U.S. corporations is a widely recognized problem. When one considers the additional differences in language, culture, and education between developed and developing countries, the task of effective North-South technology transfer seems almost insurmountable. The right technology and the best intentions of all parties is far from a guarantee that technology transfer will succeed.

Development assistance programs also have limitations inherent to the nature of the institutions. The national and multinational aid agencies are large bureaucracies with large budgets. They must carefully manage their operations and keep overhead under control. This prevents them from being responsive to the evolving needs of individual projects and leads inevitably to a top-down management style that is often not in the best interest of developing countries.

They also tend toward project rather than function funding, which means that there may be no funds for follow-up activities. After the project has ended, the program managers go on to the next activity, and people in developing countries do not know where to turn to ask questions or get help with minor problems. Follow-up is crucial to the ongoing health of any innovation.

Finally, the division of biomass programs into forestry, agriculture, energy, rural development, and other neatly defined areas fails to take advantage of the synergistic possibilities of biomass systems. Instead, it leads to unproductive competition for scarce soil and water resources and to wasteful funding of numerous uncoordinated and ineffective programs.

What BUN Can Do

The theme that unites the criticisms of existing biomass programs is that too little attention is paid to the practical concerns of developing country technicians, managers, and public officials that must apply the principles of biomass management to their countries. Experts agree that forests can be preserved and regenerated, that soil erosion can be stopped and agricultural productivity increased, that existing technology can capture a vast share of biomass energy potential, and that doing all these things will contribute significantly to development. Practical efforts to apply this knowledge have, however, been largely disappointing for the reasons discussed above. Developing countries and donor agencies will not fund future biomass programs unless the efforts can promise to deliver the benefits. BUN's goal is to stimulate rural development, create new markets for agricultural products, preserve foreign exchange, and conserve natural resources through effective biomass management.

BUN's founding member countries are actively seeking to make better use of our biomass resources. We are devoting time and resources to forestry, agriculture, and bioenergy projects. Though sometimes disappointed with the results, we are acquiring the experience that will enable us to improve these efforts. Learning from the collective experience of developing countries is a vital component of successful biomass management. We understand that developing countries cannot afford to repeat one another's mistakes. We formed BUN to merge this collective wisdom and apply it to the practical problems of biomass management.

BUN's founding members believe that our experience can make a difference in technology assessment, information dissemination, technology transfer, and other specific programs. More important, we want to focus our efforts on the implementation and integration of various biomass programs. BUN members are not advocates of a particular technology or economic sector. Our goal is sustainable development, and we promote effective biomass management because we know it contributes to that goal. Stable markets for agricultural products, domestic energy production, and resource conservation are essential to development.

Many of the problems in biomass development result from the mismatch between the technologies and conditions of the North and South. BUN is a developing country organization that has an inherent understanding of the South. BUN can judge which technologies are most likely to be appropriate, what information is useful, how to transfer technology, and how to integrate biomass programs with one another and into a national development strategy.

South-South technology transfer enjoys widespread support in principle, but practical applications are hard to find. In many cases, the South simply does not have the technology to transfer or does not have it in transferable form. Biomass management, however, offers an ideal opportunity to put theory into practice because developing countries often have specialized expertise that cannot be found in the developed world. In fact, rural development, which is vitally important to developing countries, is not a concern of developed countries. Likewise, developing countries have the most direct experience with managing fuelwood supplies, growing tropical crops, stopping urban migration. Brazil is the world leader in alcohol fuel and industrial charcoal production, and China in biogas production.

BUN has the potential to deliver immediate benefits in improved biomass management and to provide an influential model for future South-South cooperation in other areas. Most important, BUN will facilitate interaction among scientists, government officials, policymakers, industry leaders, and financiers, promoting the type of integrated action that is essential to sustainable development. In addition to correcting the inadequacies of past development programs, BUN can pave the way for innovative new approaches.

BUN cannot succeed, however, without the help of donor agencies and other institutions offering development assistance. BUN members can contribute their time, experience, and expertise, but they lack the financial resources to hire the staff to establish and maintain the flow of information. BUN can guarantee that development funds are spent more effectively and provide a focal point that can serve developing countries and donors alike.

2. Organization and Operation

Representatives of seventeen developing countries, meeting at the "Bioenergy Approaches to National Development" workshop in Manila in March 1983, realized that properly managed biomass programs catalyzed rural development and contributed to resource conservation. However, developing countries had no formal means to share research results and practical experience. They decided that the diversity of national programs, biomass professionals, and the technologies themselves called for the creation of a formal mechanism to facilitate the exchange of information, including such nontechnical concerns as program formulation, financing, biomass resource management, and government policy.

Representatives of Costa Rica, Indonesia, Jamaica, the Philippines, and Sudan were elected to the organizing committee that laid the groundwork for BUN. The Canadian Industrial Development Agency through the International Institute for Environment and Development, Rockefeller Brothers Fund, Swedish International Development Authority through the Beijer Institute, U.S. Agency for International Development, U.S. Agricultural Resources Development Foundation, and World Resources Institute provided assistance in various forms. The Network's formal inauguration took place at a meeting of more than twenty developing countries in Bangkok in October 1985.

Board Members

Attendees at the Bangkok meeting elected the following people to three-year terms on the board of directors:

Dr. Worphat Arthayukti* (Secretary)
Associate Professor
Chulalongkom University
Thailand

Dr. Albert Binger* (Executive Officer)
Agricultural Development Agency (Agro 21)
Jamaica

Gen. Pedro Dumol
Administrator
National Electrification Authority
Philippines

Prof. David Hall*
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Kings College of London
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Dr. Ahmed Hood* (Treasurer)
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Head, Energy Division
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Associate Professor
Central American Institute
of Business Administration
Costa Rica

Prof. Gordon Goodman*
Executive Director
Beijer Institute
Royal Swedish Academy of Sciences
Sweden

*Executive Committee members

The BUN board will play a vital role in the operation of the organization. Every program-related task force and workshop will be coordinated by a board member, and every board member is required to serve on at least one task force and one working group. This hands-on participation will make the board members active and informed managers. The board will meet formally once a year.

Organizational Hierarchy and Management Structure

The board elects from its members a five-member executive committee, which will make management decisions. The executive committee will decide, for example, when and where to hold workshop meetings and will review and approve all publications and training materials. The executive committee will maintain regular contact by phone, telex, or mail and will meet as needed.

The BUN members choose an executive officer who will manage the day-to-day operations and be the sixth member of the executive committee. The executive officer's primary responsibilities are:

- -promotion of BUN to leaders of developing countries
- -coordination of BUN work with efforts of other organizations
- -review of existing programs and interests of other development organizations to identify opportunities for BUN participation
- -fundraising
- -management of program staff.

Staff

In addition to the executive officer, the BUN staff will include an administrative manager, a program officer for each of the core activities (information, training, and equipment and services evaluation), a program officer for each of the planned programs (sugarcane diversification; biofuels; arid, semiarid, and degraded lands; germplasm; and special projects), assistant program officers in biofuels and germplasm, and support staff.

Decision Making

The board of directors will make overall policy decisions and establish operating guidelines. The executive committee will decide on actions to implement these policies. The executive officer will assign staff to the activity and oversee its budget and operation. The staff will implement programs.

The example of the sugarcane project illustrates this process at work. The board decided that diversifying the sugarcane industry should be an organizational goal. The executive committee decided that BUN can best contribute to diversification by forming a multinational task force that will concentrate its efforts on two working groups--one financial and administrative, the other technical. The executive officer will choose a program officer, who will be approved by the executive committee, and support staff. The program officer, in consultation with the executive director, will recruit additional members of the task force, arrange meetings, oversee the collection and preparation of information material, and coordinate activities with other BUN programs. Task force assignments, meeting schedules, and publications will be reviewed by the executive committee.

The work of the program officer will, of course, differ with each project. The arid lands program officer will raise funds for and administer grants and scholarships to encourage the study of indigenous plant species with low water requirements and will oversee several pilot projects in collaboration with the respective working groups. The equipment and services evaluation program officer will design survey forms for the evaluation and oversee publication of the results. The germplasm project officer will direct a similar grants and scholarships effort as well as organize an international congress. Other program officers will have duties particular to their assignments. (See Sections 3 and 4.)

The most important qualification for BUN staff members is that they have experience and expertise in program management in developing countries. They should be familiar with biomass technologies, but technical expertise is not necessary. They will call on others for technical advice. Their most important function is to facilitate the flow of information and to make certain that program planning takes into account the economic, social, institutional, and managerial factors that are essential to biomass program success.

Financing

BUN seeks unrestricted funds to maintain the secretariat and core activities staff and project funding to assist in the implementation of specific programs. (See Section 5.)

3. Core Activities

Information

Participants in the 1983 Manila bioenergy workshop at which BUN originated identified improved information as a prerequisite to improved biomass management. While acknowledging the abundance of printed information on many aspects of the subject, the developing country representatives found significant shortcomings:

- -Much of the available information deals with developed country projects involving technologies, feedstocks, and end uses that were often irrelevant to developing countries.
- -Much of the information that is relevant is available only in conference proceedings or other publications with limited distribution in developing countries.
- -Most of the information discusses isolated experiments or projects and makes no attempt to compare results with similar efforts.
- -The overwhelming emphasis on technology leaves a serious information gap in management, policy, planning, applied economics, market viability, and social concerns.

The BUN organizers realize that effective communication requires the right information in the right language at the apropriate level of detail and sophistication delivered when needed--an admittedly tall order. The key to meeting all these requirements is the use of a variety of forms of information.

BUN's first task is to collect and code existing generic information to make it easier to find the best existing resources to meet information needs. The next step is to make developing countries aware of available and forthcoming resources.

The vehicle for this will be a quarterly newsletter containing features on successful projects, news of ongoing activities, answers to specific questions, announcements of important events, regional reports, and bibliographies of useful publications.

Having collected and analyzed existing information, BUN will be prepared to add new information. The next step will be the collection of practical information on developing country experiences. The first project will be to standardize reporting data as much as possible. Measurements have no meaning without an agreed upon standard, and no standard exists for biogas production, forest yield, wood stove efficiency, soil quality, and numerous other physical and economic measurements. BUN will seek consensus on measurement standards, disseminate them, and promote their use.

Promoting the wisdom of integrating biomass management programs will be little help to an official who has no image of an integrated biomass system. The first reports BUN plans to produce are case studies of successful projects. Concrete examples that show how a program was developed, where integration made a difference, how it was tailored to specific conditions, how management and social conderns were handled, and what are the concrete results that will be immediately useful to other countries.

Possible early case studies include the Philippine dendrothermal power program, Brazil's alcohol and industrial charcoal program, the Guatemalan biogas program, and Indonesian animal feed efforts. Other case studies will focus on technology transfer successes such as charcoal production from Brazil to the Philippines and plastic bag biogas systems from Costa Rica to Jamaica.

BUN will organize a skills bank to help member countries identify the individuals with experience and expertise in specific aspects of biomass management. No printed information can substitue for direct contact among managers, technicians, and policymakers actively engaged in biomass management. BUN will maintain a catalog of experts who can provide direct assistance to those in need.

Training

BUN plans to make people aware of the training opportunities that already exist, help improve these training programs, and create new programs where necessary. The most apparent need is for training in systems integration to complement the existing programs, most of which focus on a specific technology or application.

The Network will first compile a directory of relevant training programs already offered by development agencies and others. Then it will survey members to assess training needs and share this information with the organizations and institutions that conduct or finance training. BUN will then work with these groups to improve training programs. Network members can identify the trainers and information that can give these training programs the practical experience of operating biomass management systems. For topics where no training is available, BUN will work with interested parties to develop training programs.

The primary audience for training will be BUN member countries, but information on training will be publicly available.

BUN will apply the following general criteria in evaluating and developing training programs:

- Match training to the specific needs of the recipients.
- Train those who can most readily use the new skills and knowledge.
- Use members' in-kind contributions of expert personnel.
- Encourage "echo training" in which trainees share their knowledge with others.
- Address economic, institutional, and managerial implications as well as technology.
- Arrange follow-up activities that will enable trainees to put their knowledge to work.
- Monitor the work of the trainees through the country's BUN representatives to assess the impact of training and suggest possible improvements.

The four major training areas will be:

- basic and applied research
- project development and management
- operation, maintenance, and monitoring of equipment
- establishment and management of biomass fuel plantations.

In addition to its work with specific biomass training programs, the Network will look at university programs in agriculture, forestry, energy management, and public administration to identify schools that offer useful courses. BUN country representatives will seek to identify individuals with leadership and technical aptitude and to secure fellowships for them at universities with biomass programs.

Equipment and Services Evaluation

Many technologies for the production, processing, and use of biomass are commercially available. BUN member countries need objective data on the the reliability, cost-effectiveness, and efficiency of the technology and equipment in field operation, but such information does not exist.

BUN plans to develop a "consumer reports" evaluation of equipment performance in the field. We expect that the results will differ considerably from the laboratory performance data supplied by manufacturers, and it will be presented in a form that allows for easy comparison of competing products. Developing countries want to know how well a product works in a developing country environment. Indonesia, Thailand, Malaysia, the Dominican Republic, and Jamaica, for example, are eager to see results of Philippine experience with small wood-fired electric plants and wood processing and transport systems in its dendrothermal program. These results will be a significant factor in their decisions about implementing similar programs.

BUN country representatives will manage data collection through their government agencies. BUN program staff in consultation with appropriate professional organizations will design a reporting format. Collected data will be synthesized into a report that will be available to BUN members and the public. To preserve fairness and accuracy, BUN will release the reports only after the equipment manufacturers or technology suppliers have reviewed them. Manufacturers will have the option of appending a response to the report.

BUN expects this program to benefit users and suppliers. Our conversations with manufacturers indicate that an uninformed buyer is a hesitant buyer, and that developing countries are extremely skeptical of unproven technology. Manufacturers recognize that the potentially enormous market for new biomass equipment will grow only when the equipment establishes a reputation for reliable performance in the field.

STATEMENT BY
DR. MOSTAFA K. TOLBA
EXECUTIVE DIRECTOR
UNITED NATIONS ENVIRONMENT PROGRAMME
TO THE SIXTH MEETING OF THE
COMMITTEE OF INTERNATIONAL DEVELOPMENT
INSTITUTIONS ON THE ENVIRONMENT (CIDIE)
Washington, D.C., 3 June 1985

For many months the African crisis has been presented in the media, on magazine covers, in editorials and in documentary films. It is impossible to be inured to this distant suffering, and we fell at once helpless that we can do so little, and guilty that we allowed tragedy to strike in the first place. There are signs that the worst may be over, but in the wake of the crisis is left a generation of environmental refugees with no land to which they can return; and looming over the region is the certain prospect of more serious impacts of future droughts if development planning continues to be misoriented; if desertification cannot be rolled back and if short term gains in economic growth remain the sole driving factor for economic activities.

Also in the last year the media provided us with vivid coverage of the gruesome disasters in Mexico City and Bhopal, re-awakening our suspicions about the degree of safety of hazardous industries. And, more quietly, tropical forests continued to fall; toxic chemical and polutting fertilizers continued to seep into water supplies; war continued to take its accustomed toll and military expenditure continued to grow at its usual mind-boggling rate.

The harder we strive to identify environmental threats and co-ordinate response, the more we see that no aspect of human life is divorced from the battle to preserve the earth. From the small-plot farmer to the chairman of a chemical company, from a woman producing food or gathering firewood in Africa to a woman managing a bank in a developed country all of their activities are as interrelated as the ecological system in which they live.

The establishment of the Commitee of International Development Institutions on the Environment (CIDIE) in 1980 was a logical step in the global community's efforts to ensure that development progresses in a sustainable way, that its benefits might accrue to the greatest number of people, and that its potential for degradation of the environment might be minimized. Development institutions rightly recognized the inseparable nature of development and environmental safeguards.

In taking stock of CIDIE's activities during the last five years, we can point to signs of its potential effectiveness. Information exchange--always a crucial aspect of organizations attempting to curb threats to the environment posed by development assistance--has made progress in the fields of forestry and pesticides, and in training and education. Awareness has increased in financial circles of the need for sustainable development and environmental consideration in the earliest stages of all investment. The addition to CIDIE's ranks two years ago of the European Investment Bank is a reassuring sign that this awareness will spread even further.

It is fair to say that bilaterals as well have taken increasing note of environmental factors, to the extent that "environment" no longer connotes narrow-minded idealism but is rather considered a staple of the development process. More evidence of the increasing emphasis on the environment in bilateral aid agencies can be found in last year's Resolution by the Council of Ministers of the European Community expressing their intention to adhere to the same or a similar Declaration of principles as those signed by CIDIE members. The influence of CIDIE has also helped bring many NGOs into the sustainable-development fold.

But let us be frank, and admit that these achievements are modest at best, considering the vast nature of the problem and the stakes involved in the present and future course of world development. CIDIE has not yet truly succeeded in getting environmental considerations firmly ingrained in development policies. There has been a distinct lack of action by several multilaterals.

The main failing seems to be that members of CIDIE have gone along with the Declaration in principle more than in major shifts in action. For example, at the second CIDIE meeting in Abijdan, it was proposed that a three-week training course in the integration of environmental considerations in development planning be held at the Economic Development Institute of the World Bank here in Washington. The total cost of the programme was estimated at $120,000. Four years later, the course is still to be implemented. Point seven of the Declaration states that CIDIE members will "support the training and information of operational staff in the environmental dimension of economic development." The environment course at the EDI would certainly be a concrete example of such support. We certainly need that support.

The CIDIE meetings did not make full use of its great potential. It was intended that CIDIE would provide a mechanism for the critical review and appraisal of member's efforts to integrate the environmental dimension into their development co-operation policies and programmes. After five years it did not yet reach that stage. All of us, members of CIDIE, I presume, are insisting that CIDIE should be doing something more than just talk. We are still very far from our most basic goals. Environmental impact assessments are not yet an integral part of all or even major development projects, and CIDIE could be helping here. CIDIE could take practical steps to promote low- and non-waste technologies. CIDIE could help to disseminate information on environmentally-sound development investment. I am sure you are fully aware that it is not only the donor countries, as evidenced by the US Congress for example, that are concerned. Just a couple of weeks ago, UNEP's Governing Council at its 13th session, with a majority of its membership from the third world, and at the proposal of the Asian Countries, called upon all of us, the signatories to the Declaration of environmental policies and procedures, to undertake periodic reviews of the progress we have achieved in response to the Declaration, particularly as regards the institution of internal provisions and procedures relating to the application of environmental impact assessments and analyses in a manner compatible with the requirements, needs and resources of developing countries. The Council further called upon us to accord special consideration to the major environmental problems of development countries. These are clear signals from all governments, developing and developing. I fear that without a radical realignment of CIDIES's direction, its future could be really limited and we would have lost an organ of great potential. In our organization, UNEP, we have come up against a similar problem. At the beginning of this year, my colleagues in UNEP and I came to a unanimous conclusion that we should be doing less talking and more action. I believe we need a similar position in CIDIE. Another conclusion we reached in our soul-searching series of meetings in Nairobi was that only by setting specific targets for ourselves could we accurately gauge our progress, and I might suggest the same for CIDIE. The problems we face are too far-flung and far-reaching to settle for action on one front and inaction on another. We risk being left behind by environmental trends, and we will be put in the position of having to heal even more problems we have created for ourselves. Concrete goals would allow us to claim success or admit failure, and move on from there.

CIDIE meetings might be given more coherence if they set themselves specific goals for the coming years. Perhaps then the main function of the meetings--reporting on progress in the implementation of the Declaration--would be a more clear-cut task.

Development will not slow down for us. Only by exerting our energies and the persuasiveness of our arguments can we ensure that development will not spell disaster for the millions who depend on it for their future welfare.

CIDIE must not be put in the position of being accused of _saying_ but not _doing_ things. CIDIE members must not find themselves under attack or left behind years from now when environmental problems come to a head and development institutions were seen not to have acted in time. Until developing countries have reached the point where they themselves can do the job of integrating environmental considerations with planning, that job must be done through major assistance on the donors' side. The tendency is for developing countries to rush head-long into projects for immediate return--and the task of development institutions is to clarify and help prevent the long-term damage that can result from such a rush. Clearly the best time to forestal such harm is at the beginning--as early on in the conceptual stage of project planning as possible.

We are haunted by the dismal failures in Africa which have resulted in disaster. In response, the World Bank has launched an Action Programme for Africa and has received pledges of more than $1 billion in support. Other organizations, includig IFAD and the OECD, have answered the call of Africa's crisis. If only this kind of initiative could be generated in advance of the crises that lie in store for countries that do not manage their development properly, then we would be getting somewhere.

That is the reason for CIDIE's existance. Let us see to it that this Organization's promise is realized. A good deal of service to the world depends upon it.

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INDIGENOUS PEOPLES AND ENVIRONMENTAL PROTECTION IN MULTILATERALLY FINANACED DEVELOPMENT: CASE STUDIES.

Stephan Schwartzman
Cultural Survival, Inc.

February 26, 1986

Indigenous Peoples and Environmental Protection in Multilaterally Financed Development: Case Studies

The publication in December 1984 of the House Subcommittee on International Development Institutions and Finance's reccomendations to the US Treasury regarding environmental protection in multilaterally fiananced development projects was a groundbreaking step in what has since become a process of congressional review of the environmental and social effects of the development policies of the multilateral banks (MDBs) and of the US role in them. The reccomendations have raised crucial issues, not only of environmental protection, but of the situation of indigenous populations in MDB development projects, and have helped to increase the attention paid these issues in the US government and in the banks. The following examples suggest that while progress has been made in some areas, the problems that motivated the subcommittee's concern are as serious today as they were two years ago.

The subcommittee's reccomendations numbers 8 and 9, which urge the involvment of indigenous people's and conservation NGOs in project planning and implementation, are of particular importance, since they address one of the most disturbing and longstanding problems in multilaterally financed development projects. Displacement, economic and social marginalization, and cultural and physical destruction of indigenous societies and ethnic minorities continue to threaten these peoples in development project areas across the world. (see statement of Dr. David Maybury-Lewis) Their active and informed consent and participation in the planning and implementation of development projects in the areas they inhabit are fundamental not only to their well-being, but to the success of the projects. The subcommittee's reccomendations are a crucial step to improving the performance of the multilateral banks in this area.

While there are some encouraging indications that the banks are attempting to ensure that measures are taken to mitigate the destructive effects of projects on indigenous populations, and secure their participation in planning, there are continued indications that indigenous peoples are seriously jeopardized in others.

A. Porto Velho-Rio Branco Road Improvement Project

Last year, the Interamerican Development Bank approved the the Porto Velho- Rio Branco Road Improvement Project - the continuation of the paving of the 364 highway, the road that is the center of the World Bank's Northwest Region Integrated Development Program (Polonoreste). The Polonoreste project has become cause for grave international concern for its disastrous environmental effects and impacts on indigenous populations. If, as is an alarming possiblity, the project goes forward in the same way that Polonoreste did, with the road being paved first and environmental protection measures and demarcation and protection of indigneous lands coming afterward if at all, this project will simply repeat the debacle of Polonoroeste. The project has already been subject to protest in the US and Brazil. One result of the concern expressed over this project was the US Executive Director's abstention on the loan - on the grounds that the environmental risks of the project made it a poor investment. Another is that the World Bank is undertaking a joint study project with the IDB using World Bank funds already earmarked for the Northwest region for a survey of potential land use in Acre, including soil surveys, identification of indigenous lands, and identification of natural areas for protection. Funds have already been made available for the demarcation of a few indigenous areas through this project, but given the volatile and often violent conflicting land claims in Acre, it is far from clear how many indigenous areas will actually be demarcated. The purpose of the World Bank-IDB project is to provide state and federal planners with a sophisticated and detailed analysis of which areas are suitable for agriculture, which should be protected, and what the characteristics of the varying ecological zones in the area are. Further, the World Bank and the IDB refused requests for state level integrated development loans modeled on the Polononoreste project.

The Plan for the Protection of the Environment and Indigenous Communities in the area of influence of the IDB's project, required by the IDB as a condition for approving the loan, however, shows that the MDBs can take positive steps to see that the physical and social integrity of indigenous peoples are protected in areas undergoing rapid transformation. Preparation of the plan is now in its final stages. The World Bank has broadened its scope by providing funds for the identification of areas to be protected. The implementation of the plan must begin very quickly if it is to serve its purpose. Indigenous groups in the remote tropical forest region (including parts of the states of Rondonia and Amazonas and the entire state of Acre) are threatened by increasing migration from the adjoining

Polonoroeste Project area, as well as increasing land conflicts and drug-resistant malaria of epidemic proporitions and other health problems spread by colonists. The protection plan would make a substantial difference if actually implemented.

The plan provides for the demarcation of 60 indigenous areas belonging to 39 tribal groups, to be completed by 1990. Demarcation is the crucial process of legal identification and titling of indigenous lands, and is of special importance in areas of rapidly increasing land values and conflicting claims. The plan covers an area much larger than that defined under Brazilian law as the area of influence of the road to be paved, and also larger than the area originally considered by the IDB. But this area more realistically estimates the territory to be affected by the road project and other government plans.

Perhaps the most positive sign is that the identification of areas to be protected is to be carried out by teams of anthropologists, health workers, and other specialists from the region or with long experience there, and the process is being planned in collaboration with local communities. In addition to involving indigenous peoples' organizations and communities the plan would support efforts by local Brazilian community organizations to secure land for traditional sustainable uses of the forest. Government planners and NGO representatives plan to establish "extractive reserves" for rubber tapper communities, an innovative proposal originating with the local communities that combines forest preservation with subsistence and market production. Involvement of NGOs such as the National Council of Rubber Tappers, or the Pro-Indian Commission of Acre, based in the region, could, if conscientiously pursued, lead to protection of the subsistence base of some 10,000 Indians, as well environmental protection with a local constituency to ensure it. The marginalization and dislocation that has followed on other development projects in Amazonia could be avoided.

The situation of the indigenous peoples remains one of serious risk, in part from the migration encouraged by the World Bank's Northwest Region project, and now expanded by the IDB's road paving loan. But the IDB and World Bank can exert a strong positive influence in the region and establish a model for the protection of indigenous and local communties and the environment in tropical forest regions by making certain that the protection plan is implemented.

In other areas, however, there are continuing indications that the situation of indigenous peoples is not given adequate attention in project planning.

B. Bura Irrigation

The Bura Irrigation Settlement Project, which began construction in 1979 on the lower Tana river in Kenya, is a shocking example of environmentally destructive, wasteful and inappropriate development. The project, intended to increase agricultural production and provide land, work, and income to landless peasants, seems rather to have impoverished the settlers and exposed many of them to health conditions worse then in other areas of Kenya. A midterm review of the project published by the government of Kenya in 1984 found that malnutrition among settlers was worse than in other areas of rural Kenya, that settlers arriving from other areas of Kenya were becoming infected with malaria on arrival at Bura, and that mortality rates were high and threatened to increase in the absence of health care infrastructure capable of dealing with malaria outbreaks. Further, Bura resettled thousands of people in an area of endemic schistosomiasis (a water borne parasitic disease) with no provisions for control of this debilitating illness, despite the availability of relatively cheap, effective treatment. The cost of this disastrous project is enormous. The cost per family settled was estimated at $40-50,000 in 1984, at least twice the cost of comparable World Bank financed irrigation settlement projects. Bura Irrigation is a disturbing illustration of the kind of human and environmental fiascoes that all too often result from the tendency, general in the MDBs, to "move money" at all costs once a project has been appraised.

The core problem at Bura was that despite strong evidence that much of the land in the area under consideration was unsuitable for irrigated agriculture, and insufficient information on soil conditions when the project was appraised, an optimistic appraisal report was prepared, overestimating crop yields and underestimating costs. The cost of providing water for irrigation was drastically underestimated, and almost doubled after changes in the preliminary design of the irrigation component. Consequently, the project suffered extensive delays, and was underfinanced. This resulted in the omission of large parts of the health care component, cuts in the forestry plan designed to provide fuelwood and prevent deforestation, and irregular supply of irrigation water, the core component of the project. Although infrastructure was in some cases constructed for the original target population of 65,000 people, by 1984 it was clear that the project would never resettle more than half that number. By 1979 the World Bank had already judged the project economically unviable, realizing that the projected economic rate of return would never be attained. The project totally failed to meet goals of self-sufficiency for the settlers, many (over half of those that arrived before 1983) of whom are now indebted to the government. The settlers must pay for inputs provided, but have no control over how well or poorly this is done, so that they have in effect had to subsidize the inefficient management of the project. Settlers encounter severe health problems, declining income and malnutrition. At the same time people indigenous to the area have suffered as well. Failure to implement the forestry component due to rising costs has endangered the unique riverine forest environment and the Malekote and Pokomo people indigenous to it.

Grave environmental problems have resulted from the project. Clearing of more bush land than necesssay for the number of settlers actually settled resulted in elimination of wildlife habitat and exposed topsoil to wind erosion. This reduces the productivity of the land and causes dust storms, clogging irrigation channels. The short fallow period observed has caused insect pest problems that reduce yields and stimulate overuse of pesticides. Deforestation for fuelwood also jeopardizes wildlife in the riverine forest.

The Bura Irrigation project, in short, is a monument to what can go wrong in planning and implementing development in the Third World, and raises serious questions about why the World Bank would agree to involve itself in such a complex, overcentralized, environmentally and socially dangerous project on the basis of inadequate and controversial data, and then remain involved after finding the project inviable. The project is a tragic example of the kind of mismanagement and misuse of human and ecological resources that result from an administrative structure that rewards loaning money for large projects above all else.

C. Indonesia Transmigration

Indonesia Transmigration, financed by the World Bank and the Asian Development Bank, may be the most environmentally destructive development project with the most serious human rights consequences in the world today. The deforestation associated with the project is increasing very rapidly, destroying one of the most species-rich, unique ecosystems in the world, and undermining the resource base of indigenous groups who live in the forest. In Irian Jaya (West Papua), home to 800,000 indigenous tribal peoples, a local nationalist movement has beeen fighting for autonomy since 1963. Transmigration is part of the same strategy of "Javanization" of the outer islands that includes the military occupation of the island and surpression of the insurgency. Last year some 10,000 Irianese fled Indonesian army repression, crossing the border to Papua New Guinea. The border area is slated for heavy settlement of migrants, to create a cordon sanitaire of loyal Javanese. This is particularly disturbing given the abysmal human rights record of the Indonesian government - the occupation of East Timor in 1975 and the famine, disease, and slaughter that followed resulted in the deaths of 60,000 - 300,000 East Timorese (between one tenth and half the population). This bloody occupation has been consistently condemned by the UN General Assembly. Some reports claim that the Indonesian government is settling Javanese in East Timor. While not directly financed by the World Bank, Bank financing of other aspects of the scheme would certainly facilitate transmigration to East Timor, raising serious questions on the Bank's support for the project as a whole.

Transmigration is intended to provide land, employment, and income to the poor and landless of Indonesia's inner islands (Java, Madura, Lombok, and Bali), by moving them to the sparsely populated outer islands (principally Kalimantan, Sulawesi, Sumatra, and Irian Jaya). The Indonesian government, and the World Bank, tout the program as a means of reducing the rate of population increase on the inner islands. But at World Commission on Environment and Development hearings in Jakarta this year, Indonesian environmentalists pointed out that the Ministry of Transmigration offers financial incentives to large Javanese families provided they agree to settle in Irian Jaya, contradicting population policy for Java.

Moreover, the areas settlers are moved to are largely upland tropical forests with very poor soils unsuitable for the irrigated rice agriculture that supports the dense populations of the inner islands. Even with free fertilizer and pesticides many of migrants do not attain self-sufficency. The program is expensive (from $6-12,000 per family), and if expected levels of productivity are not attained, the evironmental, human, and economic loss entailed will be immense. The government's third five year plan (1979-84) moved 500,000 families (over 2 million people). The next five year plan (Repelita IV) has a target of 750,000 families. The World Bank's fifth Transmigration project (including only 300,000 families of the total) will cost some $275 million overall, of which the Bank has contributed $160 million. In 1984, the Asian Development Bank loaned $60 million for a draft livestock project in Kalimantan, which will probably be used for inappropriate annual crop production. Environmentalist Nicholas Guppy estimates that at present rates Kalimantan, until recently almost entirely forested, and one of the most diverse ecosystems on earth, will be completely deforested within 13 years.

Since 1976, the World Bank has provided nearly a half a billion dollars for four transmigration projects. Projects currently in the pipeline for the Ministry of Transmigration have a total cost of some $750 million. With expenditures of this magnitude it is hardly surprising that the government has moved a large number of people, expanded food production, and constructed infrastructure and provided services in some areas in the outer islands. But there is no evidence that the agricultural policy being pursued will prove sustainable, and great danger that it will permanently degrade more tropical forest lands, expropriate more indigenous groups, and fail to provide lasting benefits to the majority of the migrants it claims to assist.

The great economic problems of transmigration will not stop the Indonesian government; Javanization of the outer islands is recognized as a major priority for it. Repelita IV would move more than 138,000 families to Irian Jaya, which is 80% tropical forest and inhabited by at least eight major tribal groups speaking perhaps 400 languages, who are racially and ethnically distinct from the Javanese. While not all the Irianese actively support the armed insurgency (the Free Papua Movement, OPM) cultural nationalist sentiments are widespread, and many groups are directly threatend by Transmigration. Indonesian law does not recognize the land use rights of hunters and gatherers, and to date the indigenous peoples have not been compensated for land alienated from them. The native people of Irian Jaya are now faced with the prospect of becoming a minority in their own land, and the exodus of refugees to Papua New Guinea, as well as reports of indiscriminate military repression of indigenous groups suggest that Irian Jaya could become another East Timor. Further, there has been tension with PNG along the border, and the possiblity of invasion, and the transformation of PNG into a subject client state or ever its annexation, exists.

Indonesia Transmigration merits the closest possible attention. The recently approved Transmigration V project is to finance aerial mapping, land use surveys, and site selection largely in Kalimantan and Irian Jaya, and is said to provide for consultation with indigenous groups in Irian on questions of land use, compensation, and participation in local development. Eighty per cent of the Bank's contribution to the project goes for consultants' fees for these components. But under present conditions in Irian Jaya, it is very difficult to see how the indigenous peoples' rights and needs can be taken into account as mandated in the World Bank's tribal peoples policy.

D. Narmada Valley Project

The Narmada valley project is an immense irrigation and hydropower scheme in the states of Gujarat, Madhya Pradesh and Maharashtra, India, which would include 30 major dams, 135 medium dams, and some 3,000 minor ones. Some 1 million people would be relocated for these projects, many of them tribal people. The total cost is projected at $12 billion over the next 50 years. The World Bank has already committed $450 in two projects for the first phase of the plan, the Sardar Sarovar dam , which will involve the forced relocation of at least 65,000 people, the majority of whom are Tadavis, Dungari Bhils, Rathwas and other tribal minorities. Historically the Indian government has not recognized the land rights of these groups but has viewed them as landless squatters on state-owned territory, despite the fact that in many cases the tribals have lived on the land for centuries and regard it as their traditional territory.

The World Bank's resettlement policy acknowledges that people subject to forced resettlement in hydroprojects and irrigation schemes are very rarely beneficiaries of development. It states among other stipulations that persons subject to involuntary resettlement must recieve sufficient compensation that their standard of living does not decline because of relocation and should wherever possible improve. India has a long history of socially and environmentally disruptive resevoir construction, and most often it is urban centers or local elites that receive the benefits of development, while evacuees are dispossessed and may become utterly destitute. (cf The State of India's Environment: 1982) Even where some form of compensation is made, it is often insufficient, or inappropriate, consisting of poor land, or cash payments for land. Illiterate and politically powerless tribal peoples have frequently been cheated out of land titles or swindled by speculators or landlords. Nonetheless, the World Bank only insisted that the Governement of India agree to a relocation plan before approving the loan after extensive protest of the project by environmental and indigenous rights groups in India and in Europe.

The adequacy of the relocation plan, and the chance for its actual implementation remain serious questions. Communities may be disrupted, villagers may lose land through compensation of households rather than families, and the needs of the landless, who depend on the community for their sources of livelihood, may be ignored. Although many of the indigenous people have an intimate, non-destructive relation to the forest, the government initially refused to allow their resettlement on state-owned forest lands, arguing that this would violate conservation concerns. The World Bank has recently claimed that the GOI has reversed this position, and that the relocation plan takes into account the needs of all the oustees. But the adequacy of such land as is actually provided will in part depend on the level of national and international pressure on the Bank and the GOI to fulfill the measures in the relocation agreement.

The larger question of who benefits from such massive projects, or whether anyone benefits in the long run also needs to be addressed. Large hydroprojects in India have met with a series of problems, including waterlogging and increasing salinity of the soil, poor management of catchment areas resulting in erosion and siltation of resevoirs, reducing their lifespans, increased spread of water-borne diseases such as schistosomaisis, trachoma, and guinea worm, and paradoxically, increased damages from flooding (which dams are supposed to control.) Irrigation projects have favored larger landowners, with the means to adopt Green Revolution technology and the expensive inputs it requires, while the poor and landless pay the costs. The return on enormous investments necessary for big hydroprojects is often characterized as extremely poor. The loss of valuable resources -forest and wetlands and the wildlife habitat they provide - is not considered in the economic calculus that justifies large water projects, but hundreds of thousands of hectares of forest lands have been flooded. This in turn accentuates fuelwood scarcity, leading to further deforestation, erosion, and loss of productivity of the soil.

STATEMENT BY

PROFESSOR DAVID MAYBURY-LEWIS

ON BEHALF OF

CULTURAL SURVIVAL INC.

Mr Chairman, I am grateful for the opportunity to submit this written testimony before this subcommittee concerning the effects on indigenous peoples of projects funded by U.S. supported Multi-lateral Development Banks (MDBs). I am David Maybury-Lewis, professor of anthropology at Harvard University. I am writing on behalf of Cultural Survival Inc., a non-profit organization of which I am the president. We work on behalf of indigenous peoples and underprivileged ethnic groups, which we do in close collaboration with indigenous organizations throughout the world and with the associations formed to support them in a number of countries. With the help of this international network we are able to monitor the effects of programs and projects financed by the MDBs. We are deeply concerned by the widespread assumption that one of the unavoidable costs of economic development is the destruction of the way of life and the environment of peoples in areas to be developed. We can demonstrate that such destruction is in no way necessary and that it often serves to undermine development itself. We wish therefore to promote a wider understanding of this principle, so that development programs may be planned and implemented for the benefit of peoples in the areas to be developed and not undertaken at their expense.

We are grateful, Mr Chairman, for the special interest you take in these issues and for the work of your committee in improving the awareness and effectiveness of the MDBs in dealing with them. In recent years there have been indications that the MDBs might take indigenous and environmental issues more seriously into account. Cultural Survival welcomed the World Bank's publication "Economic Development and Tribal Peoples : Human and Ecologic Considerations", that dealt specifically and sensitively with these questions. Our organization was also encouraged to learn that the World Bank had adopted policy guidelines that required it to protect both indigenous peoples and the environment from the adverse effects of its projects. Indeed the World Bank's efforts on behalf of indigenous peoples in the area of the Polonoroeste project in Brazil have resulted in the lands of some Indian societies being demarcated and protected. Since then the Inter-American Development Bank has also indicated that it intends to be sensiative to the rights of indigenous peoples and to the needs of the environment as it undertakes the financing of the Brazilian Porto Velho - Rio Branco highway, which is essentially a continuation of the Polonoroeste project.

Nevertheless, there is still cause for grave concern. Not only is the past record of the MDBs in these areas indefensible, but they continue to make similar mistakes, in spite of their policy documents and their assurances that they now take these issues seriously. The World Bank, for example, has had plenty of opportunity to learn from the difficulties of its past projects.

In the 1970s the bank made massive loans to promote rural development in the Philippines. Its strategy depended on the implementation of land reform, together with a nationwide program of rural credits designed to help smallholders take part in the Green Revolution. At the same time it financed the construction of large dams to provide water for irrigation. But the Philippine authorities never carried out the land reform. Without it the rural credit system served merely to bankrupt farmers and impair the financial stability of rural banks. Meanwhile the irrigation projects produced similarly disastrous results. They uprooted smallholders, poor Filipinos and tribal peoples (National Minorities) alike. These people were not properly resettled or compensated, because those aspects of the program were inadequately implemented, or not at all. Where resettlement did take place, the Ministry of Agrarian Reform made it impossibly difficult for the uprooted to gain title to their new lands. In the absence of such title they were ineligible for rural credit. The result of all this effort and of a decade of investment in Philippine rural development was the exact opposite of what had been the original planners' stated intentions. A consultant for the World Bank, writing in 1981, stated that the rural development strategies financed by the Bank had failed to provide meaningful benefits for those rural Filipinos most in need of them. He added that the circumstances of most rural Filipinos were continuing to worsen and that the trend appeared to be irreversible. There is little doubt that this developmental disaster has contributed in large measure to the current economic and political instability of the Philippines. As a result of the Philippine program the World Bank has had a decade of experience with a government that did not implement the socially critical elements of Bank approved development strategies and whose relocation programs led to dispossession of tribal and non-tribal peoples, their impoverishment and the destruction of their ways of life.

Only a few years later the World Bank was contemplating the financing of large dams in India, where once again thousands of people were to be uprooted and relocated. Bank staff members and consultants warned that India did not have a good record where such relocations were concerned. Indeed reports emanating from India itself made the same point. In "The State of India's Environment : 1982" it was stated that the construction of dams had "effectively resulted in a direct assault on the country's tribal population", since the people uprooted were normally tribal populations or others who were relatively powerless within the political system. The same report went on to state that the treatment of the dispossessed was deteriorating over the years and that people uprooted by the most recent projects such as the Srisailam, Pong and Sabarnarekha dams or the Kali hydroelectric scheme had been "made into refugees in their own land". The World Bank decided none the less to finance dam construction in the Narmada river basin, a project which will inundate the ancestral lands of over a million people in 220 villages in the states of Gujarat, Madhya Pradesh and Maharashtra.

A project on this scale requires extraordinary care in the planning and monitoring of resettlement if it is not to turn into a gigantic human disaster. Yet the preliminary reports from the areas affected are not encouraging. The World Bank has laid down conditions for proper resettlement, including land-for-land compensation to avoid the notoriously pauperizing effect of the cash-for-land systems used previously in India. Earlier this year, however, the state of Gujarat was insisting that it could not resettle tribal populations on government lands and was therefore compensating the earliest evacuees with cash. In many cases the people so compensated attempted to buy land elsewhere but, since they had little understanding of mortgages and land titles, they were cheated out of their money, ending up with neither lands nor funds. Meanwhile the agencies of the state government work consistently against the tribespeople. Its bureaucracy frustrates them and creates anomalies for them, such as giving them land holdings miles apart which they cannot properly supervise. It insists on distinguishing between lands that tribespeople have traditionally "owned" and those they have always worked and offering compensation only for the former, i.e. for a fraction of their holdings. Above all the state government it has shown a callous disregard for the needs of communities, insisting instead on dealing with people as members of separate and separable households during the traumatic process of relocation. All this has created such bitterness in the area that there have been unprecedented mass demonstrations of protest by the tribal peoples. This is taking place during the preliminary phases of the evacuation, before the huge relocations and inundations take place. It does not inspire optimism concerning the World Bank's ability to monitor and oversee a more equitable relocation program.

The record shows that, in spite of its sophisticated analyses and stated good intentions, the World Bank's implementation of measures to protect the rights of indigenous peoples affected by its projects is often too little and too late. The Bank has for example been funding projects in Paraguay for two decades without making any provision for their impact on the Indians. When it decided that action on behalf of the Indians should be included in the provisions of a development project in the province of Caazapa, it took the bank three years to arrange for anthropologists to study the situation of the Mbya Indians who would be affected. In the mean time innumerable technical studies had been carried out and the Bank had been discussing the project for years with the Paraguayans. As a result the Paraguayans had gone ahead with the paving of roads, the building of infrastructure and plans for settlement of new immigrants to the region. This had already caused a rise in land values, an influx of immigrants and considerable deforestation, before even the preliminary studies had been made concerning the measures necessary to protect the rights of the indigenous inhabitants of the area.

A similar imbalance was noticeable in the management of the Polonoroeste project. There the road work was finished ahead of schedule, producing the expected influx of migrants into northwestern Brazil, but measures to defend the Indians and the environment lagged catastrophically behind. The result was an environmental disaster and open and massive invasions of Indian lands, which have moreover benefited large enterprises and not the smallholders which the project was originally supposed to assist. The problem, as in the Philippine case mentioned above, was that the Brazilian authorities systematically flouted the Bank's directives about what should be done on behalf of the Indians. The Brazilian Indian service was partly unable and partly unwilling to do what the Bank mandated. Its senior officials did not in any case believe that the World Bank was serious about Indian rights. One of them, who subsequently became the head of the Indian service, responded cynically to Brazilian Indianists who reminded him that the Bank required Indian rights to be protected as a condition of the Polonoroeste loan. He told them that they should not put their faith in the World Bank, for it would not cut off the Polonoroeste funds to protect the Indians.

It is to the credit of the World Bank that it did insist and did achieve some successes on behalf of the Indians in Northwest Brazil. It did in fact halt disbursements for a time on the loan, but by that time the road had been improved and the damage had been done. In fact, though the halting of disbursements was a welcome and salutory demonstration that the Bank was serious about the conditions it had set for the loan, its practical effect at that stage was to hamper assistance to the Indians, that element of the program which had characteristically been left until last.

This, Mr Chairman, is the heart of the problem. In the examples I have given we have seen again and again that the World Bank's stated intentions have been admirable, but they have not been matched by effective implementation of those parts of programs and projects that affect indigenous peoples or the environment. In the Philippines the Bank's strategy was undermined by non-compliance on the part of the host government, yet the Bank persevered for a decade in a policy that was counterproductive. It appears likely that the bitter and pauperizing consequences of Bank-financed relocation that poor Filipinos and Philippine National Minorities experienced in the 1970s are now about to be suffered by a million poor and tribal people in the Narmada basin of India. In northwestern Brazil the Bank once again financed a giant project with potentially disastrous human and environmental consequences without adequate staff or planning to enable it to mitigate those adverse effects. It was as powerless to deal with non-compliance on the part of the Brazilians as it had been in the Philippines, and appeared to have no strategy for dealing with such an eventuality. Meanwhile, in neighboring Paraguay, it is still following its conventional procedure of investing its staff time in economic and infrastructural studies, while paying scant and delayed attention to the human and environmental costs of the processes it has already set in motion even before the loan agreements are signed.

In view of these experiences, past and present, it is with dismay that we now learn that the World Bank has agreed to finance a massive transmigration program for the resettlement of Javanese and other Indonesians in West Irian, that part of New Guinea which is held by Indonesia. The potentials for a disaster of mammoth proportions are all present. Indonesia already has a poor record as regards conservation. The scale of deforestation in Kalimantan (Borneo) has provoked shock in Indonesia and throughout the world. At the same time there has been international concern over Indonesian treatment of the inhabitants of West Irian and East Timor, a territory seized by Indonesia when it ceased to be part of the Portuguese empire. Now the World Bank is financing a project where environmental degradation and mistreatment of the indigenous population of West Irian are both real possibilities, as the current flow of refugees out of the region goes to show. On the basis of past experience, it is difficult to have much faith in the Bank's ability to control the adverse human and environmental effects of a project so large, so complex and so highly charged politically.

I have focused on the World Bank in this testimony since it can, with some justice, claim to be the most sensitive of the MDBs to indigenous and environmental issues. We are therefore all the more concerned when it can be shown that the World Bank's deeds differ systematically from its words. We feel it is imperative for the World Bank to set an example for the MDBs by demonstrating its commitment to these issues in action. This can only be done by engaging qualified personnel to undertake human and environmental impact studies in good time, that is, at an early stage of loan negotiations. The Bank should also maintain an adequate staff of specialists or specialist consultants to monitor human and environmental impact during the course of Bank financed activities. Finally, it should have clear contingency plans for halting disbursements in the case of non-compliance.

It is essential to proper development that the rights of the poor and of indigenous peoples should, like the needs of the environment, be properly safeguarded during the planning and implementation of Bank financed policies and projects. If these considerations are ignored, then the results are human and ecological disasters that undermine the very development that the MDBs are trying to promote.

We therefore respectfully urge that your committee use its power of congressional oversight to ensure that policies that do not harm indigenous peoples or the environment are put into effect. This Subcommittee already recommended, in its report of December 1984, that MDBs should encourage borrower countries to use indigenous peoples' organizations during pre-project planning and project implementation (recommendations 8 and 9). It also recommended that the Treasury Department instruct the United States' Executive Directors at the World Bank and at the regional banks to work for changes in project proposals or, failing this, to oppose projects when they come before each board in cases where they threaten to significantly impair the land and resource base on which indigenous peoples depend (recommendation 16e). The regular implementation of these recommendations would do much to ensure that development projects do not impoverish or destroy the populations of the areas being developed.

Thank you.

Chairman LUNDINE. Thank you.

Mr. Blake.

STATEMENT OF ROBERT BLAKE, INTERNATIONAL INSTITUTE FOR ENVIRONMENT AND DEVELOPMENT

Mr. BLAKE. Mr. Chairman, thank you very much for asking me to testify today.

I am testifying on behalf of the Environment and Energy Study Institute which identifies itself as an independent, nonpartisan policy analysis organization established particularly to inform the debate in Congress on environmental and natural resource issues.

As you know, the Environmental and Energy Study Institute works very closely with Congress' own Environmental and Energy Study Conference, otherwise known as the Environmental Caucus.

Chairman LUNDINE. Most of that is true actually, and we have a copy of your outstanding report. It has been distributed to every member of the subcommittee, and I at least was very impressed with the work you did there.

Mr. BLAKE. A lot of work went into that.

Chairman LUNDINE. I know that.

Mr. BLAKE. A lot of the conclusions go exactly along the lines of what you have concluded and recommended to the Treasury regarding the multinational Banks.

As far as the Study Institute's views have been worked out and I will represent those today. In many places the institute has not really gone toc far, and in those cases, I am expressing my own views based on experience drawn from five decades of working on this subject. The more I work on it, the less I know.

I would like to take just a minute on the debt issue. In your letter you asked me to address that, as well as the question of the environmental programs of the Banks.

The Study Institute recommended that Congress assess the feasibility and desirability of canceling or rescheduling part of the debt owed to the U.S. Government in exchange for developing country efforts to undertake environmental and natural resource projects which would improve the long-term prospects for sustained growth and repayment.

The institute also suggested that Congress review potential incentives which might encourage the private banks, the private commercial banks in the United States to reschedule or forgive portions of their loans in exchange for pledges tc carry on environment or natural resource projects.

And, finally, the institute suggested that the Congress examine the policies of the International Monetary Fund that might result in environmentally unsustainable development.

Barbara Bramble has already reflected a large range of possibilities that we see for this. I might point out that the U.S. Treasury under the so-called Baker plan is also urging additional lending to the debtor nations, and we believe there is need to look at the positive and negative aspects of that as well as the impact on the environment of structural adjustment loans of the World Bank and AID.

As a first step, I looked into the impact the institution that we are particularly looking at today, the World Bank, would have on the debt situation. While I am not sure that I have all of the evidence, the answer that I got in talking to the Bank officials and then in talking to some good economists is an interesting one.

Basically, because IDA loans are for 50 years at a small interest and with a long grace period before they require repayment, there is a net flow of dollars to debtor nations from the World Bank. In other words, the Bank is loaning more than they are getting back in all except one country, Venezuela, which about 20 years ago stopped borrowing money from the IBRD. Overall as well as with all but one country there is a net flow in favor of the borrower.

What will happen as a result of the structural adjustment program is not at all clear as yet. Most of those agreements are under negotiation. I found that people were aware of the aspects that we were interested in, the environmental aspects, but they were paying much more attention in the Bank to monetary reform, many aspects of which might well work to the advantage of what we are trying to do.

Mr. Chairman, I would like to concentrate most of my remarks now on the other side of the picture, in other words, not on the environmental assessments and the poorer projects of the Bank. I agree with much of what has been said today by my distinguished colleagues. Rather, I will talk about the positive types of programs which we believe the Bank should be carrying out.

I am going to concentrate on the World Bank in part because that is what I know best. Also because the World Bank tends to be the intellectual and otherwise leader and that the regional banks hopefully will follow on.

I would be glad to find answers to questions that you may have about the other Banks, but I don't have as much firsthand information.

In a paradoxical way, the need for assessment by the Banks shows the lack of the kind of holistic resource development which the Banks should be providing, ones that will not only provide a better life for the people whom they are trying to help, but also not only don't destroy but do enhance the resource base. This is a very, very tough job.

In fact, at this stage there is no fully developed concept of exactly what must be done to meet these needs.

In your committee reports some of the components of such a program are mentioned. You talk about environmental beneficial projects, appropriate light technology projects, small-scale mixed farming, multiple cropping, agri-forestry, kitchen gardens, watershed management and rehabilitation, high yield woodlands, integrated pest management, dune stabilization programs, energy efficient technologies, and small irrigation systems.

Probably a more comprehensive description would be low-input agriculture, multiple forestry, soil enhancement, and conservation, and then in a somewhat different area protection of natural resource areas of importance.

You will note that in all this we are calling for simple technologies. However, the totality is something which is enormously complex. And it is very hard to put together at this stage. I know from my own experience how hard it is to explain to cautious, hard-working farmers who have been badly bit in the past by trendy programs, why should they risk entering a new program?

At the World Bank a lot of the things that I have just discussed, particularly those which might be classified under low-input agriculture, have already been tried. They have also been tried and to some extent by some of the other Banks. But nowhere has near enough been done and nowhere has low-input agriculture been done well enough.

The Banks are increasingly reaching small farmers, which is what the name of the game is. But even though they have increased by 10 to 15 times the number of small farmers they are reaching by their projects today, they are still reaching a very small part of the farmers who must be reached. Also they are not reaching the poorest of the farmers and the farmers that are by their methods of cultivating the soil destroying the very soil and the very resources which they need to.

Is this a new concept that we are talking about? In a way it is. In a way we are talking about what is beginning to be recognized as the third wave of rural development projects.

The first line into which the Banks poured a lot of money, was the development of big plantations, big farms and big plantations for wood. In the time of Bob McNamara, the World Bank began to talk about reaching the poorest of the poor. A lot of rural development programs came out of many very serious problems, despite the fact that overall thrust of what Bob McNamara was doing was a very, very positive one indeed.

Now for the third wave: low-input agriculture for the poor. What you might say is that we today have most of the hardware that we need to carry out the kinds of programs that we are talking about, but we don't really have the software. The hardware is the scientific input. The software is how do you get it done with real people and real life situations.

This is very important because of the disturbing population explosion which is going on all through the developing world. In Africa, for example, the population is doubling every 20 to 25 years depending on the country.

Today 60 percent of the money the World Bank is spending on agriculture is going to big irrigation projects and to a whole series of things that still have very questionable problems unless they are handled extremely sensitively. But very, very little money is going into what must be done to help farmers on marginal land, and that is the growing number of farmers in every part of the developing world. The bank is still not doing enough to help farmers on marginal land keep from destroying what they have to work with.

This is not entirely the Bank's fault. The evidence, unfortunately, is also that most of the developing countries are not particularly interested in this problem because it presents extremely difficult political choices for them. It also presents them with budgetary problems. The final problem is in many cases the farmers themselves who are affraid of losing their shirt if they go into a new program.

There is much that we still need to know. We don't know, for example, whether we can find the kinds of grain which will increase productivity at 3 percent a year to keep up with population growth. That means an increase in 20 years of 60 percent and we have never done that with the best of our crops yet. It is a very serious problem.

We don't know how to get fertilizer to them, the phosphorus and the lime and the things that are required for plants to prosper and particularly in a time of shortage of cheap petroleum-based fertilizer.

I would like to say though that the more important part even in that, because in many cases this is where the Bank should be getting in, is the software and how to get to small farmers on marginal lands and how to make better extension systems; we need extension systems that don't seem to work from the top down. We need to know how to make better use of private voluntary organizations.

The farmers are suspicious. I had experience when I was in Mali of going out and seeing a project which I thought was a very, very good one. I found the farmers absolutely unwilling to go ahead with it.

I asked why after drinking a lot of watery beer with them and found out that the reason was that anything to do with the government was suspicious because it meant they were trying to get taxes or were trying to tell them what to do with their cattle or trying to put their sons in the Army. Those are all things that they didn't like.

This is something which would be very difficult to overcome, but we have to do it.

There are also some perverse aspects to the system, even the system we are talking about which has to be looked at. For example there are many too many donors.

In a country like Nepal where I made a personal study of this problem, full time of the Ministry of Planning was spent on trying to figure out how to cope with everybody from the Swiss to the Norwegians to the Americans and the World Bank.

In one country alone, in Kenya, agricultural research, which is absolutely key, there are 46 separate donors helping. This is taking up almost all of the time of the Kenyans without allowing them to get out to do the things that really need to be done.

There is also too much money spent too soon in specific areas often. Congress is sometimes to blame when it calls for big projects involving big money to be spent rapidly. This can make it difficult for projects to get off the ground before people really understand what they are doing.

There is much too much top down type of approach by the World Bank and the others. It is inherent in the system and it is hard to overcome. But when you have an organization where almost everybody is located in Washington, DC rather than out in the field and where you have small field missions you have a serious problem.

It could sound like I don't think the World Bank is important to getting the new wave of low input project lending. I think it is crucial in many ways. They have been able to conceptualize new programs remarkably more in the past and when they get going. Even though they move very slowly, they can begin to push an amount of resources towards new programs.

Another thing which is very important is that they can hang in there. They can hang in there year after year after year. Where Congress can only appropriate for 2 years, they can appropriate for 20 if they want to, and they are in a position to see things through with followon projects.

Let me finish by just making a couple of suggestions of things that you might do as a committee.

It seems to me that you are already having a very important and sometimes a brilliant effect on what the Banks are doing. It seems to me that the thing you have to do is to keep the heat on the Bank just the way you are. Even though you may be delivering your message indirectly through the Treasury, it is getting there.

I found that the impact of the work that Bruce Rich and others have done and was picked up by your committee about the Brazilian projects has had ripples which have not stopped yet. That is very, very important.

Chairman LUNDINE. Can I ask you to wind up.

Mr. BLAKE. All right. I am almost through.

Chairman LUNDINE. Sorry.

Mr. BLAKE. I hope you do it through oversight hearings, through letters on specific issues and, yes, through personal diplomacy on your part and Members of the committee in keeping in touch with Bank people. This is a big order, but the World Bank is an institution which is affected by this kind of influence.

Paradoxically you should also, as I said before, be careful not to ask that too much be done too fast. We are at last coming to grips with a very, very complex series of issues which are just about the hardest ones we have ever had to handle. There are no easy answers. We wouldn't be doing it if it weren't just about the only option we had.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Blake follows:]

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Testimony of Robert O. Blake
House Subcommittee on International Development
Institutions and Finance
Feb. 26, 1986

Mr. Chairman, my name is Robert O. Blake. I greatly appreciate your invitation to testify before your subcommittee on behalf of the Environmental and Energy Study Institute (EESI). As members of your subcommittee know, the Environmental and Energy Study Institute, of whose board of directors I am honored to be a member, is an independent, non-partisan policy analysis organization established to inform the debate - particularly the debate in Congress - on environmental and natural resource issues. The Environmental and Energy Study Institute works closely with Congress' own Environmental and Energy Study Conference.

As you know, Mr. Chairman, last year our Institute sponsored and approved what we believe to be an insightful report entitled An Agenda for Improved Resource and Environmental Management in the Third World: Helping Developing Countries Help Themselves. With your permission, Mr. Chairman, I would like to provide a copy of the report for the record. The consensus set of recommendations contained in the report were developed by a task force composed of corporate, environmental, development and Congressional leaders. One of the key recommendations of the distinguished, broad-based task force called on Congress to insure that the Secretary of the Treasury would focus the attention of the multi-lateral development banks on developmental projects in third world countries. This, sir, is also one of the subjects on which you invited me to testify today.

In testifying today, I will not only reflect the views of the EESI so far as they have been determined, but also my own experience in developmental matters. Permit me a word on that score. A great deal of my experience on developmental issues derives from my 30 years in the United States Foreign Service, a major portion of which was spent living in developing countries or working on their problems. Since my retirement, I have served as a Senior Fellow of the International Institute for Environment and Development in Washington and have continued to work actively on the problems your subcommittee is addressing today. In the process, I have co-authored or contributed to books on the environmental policies and performance of the United States Agency for International Development and the multi-lateral banks.

The task you have given our panel today is enormous and complex, and I think the most useful approach for me today, particularly given the important information being given to you on specific poor multi-lateral development bank projects by my colleagues on this panel, will be to enunciate a series of criteria by which you might measure the environmental and natural resource policies and projects of the multi-lateral development banks.

I will concentrate my remarks on the work of the World Bank. First of all, that is what I know most about. The World Bank (like the Inter-American Development Bank) is located here in Washington and more information is available on its activities. But more importantly, the World Bank's programs are so much larger and as a general rule have so much more economic, political and, yes, intellectual influence on both third world borrowers and industrial donors that they are worth particular attention. The World Bank is, with U.S. AID, one of the two greatest contemporary influences on third world development. The Bank also has particular importance because of its increasingly close working relationship to its global sister, the

International Monetary Fund.

The World Bank: A Mixed Environmental Record

How can we get the best idea of how well the multi-lateral development banks, and particularly the World Bank, are doing in attacking the problem of environmentally sound development and natural resource management? It is not easy to give a fair judgement because development bank operations cover every country of the globe from huge China to tiny Cape Verde. Their operations are indeed complex, and their ideas and concepts of development are constantly evolving. I personally find that the most useful way to think about this problem is to think of the Banks' work in terms of contrasting what is being done for and about the relatively modern sector of the developing countries, particularly in the middle-income countries, and, on the other hand, what is being done for and with the traditional, subsistence sector particularly in the poorest and least advanced countries, where the population is doubling every generation. This is a somewhat artificial division because there is seldom a sharp division between the modern and the traditional sectors, just a continuum. And even in the most advanced countries, including the United States, there are economically and socially degraded remnants of the more traditional economies.

I firmly believe that the real challenge which faces the development banks at least for the next few decades is whether and how they are able to improve the lives of the great masses in the traditional sector. For, in many parts of the world where the resource base is very fragile -- the arid and semi-arid areas of Latin America, Asia and particularly Africa; the weaker soil areas of the tropical forest; and the mountainous watersheds and rapidly eroding uplands throughout the developing world, desperately poor and rapidly growing rural populations are becoming the engine of destruction of the systems of soil and water on which their very lives depend.

MDB Development Projects in the Modern Sector

I don't mean to ignore the environmental impact of Bank projects on the modern sector, particularly the work of the World Bank Group's International Bank for Reconstruction and Development and the International Finance Corporation. Here we are talking about several kinds of projects: industrial plants, mines and smelters; energy projects such as dams, electric generation and distribution systems; modern, intensive agriculture; and all the supporting infrastructure of roads, telecommunications, credit institutions, and educational and research establishments. Wherever air or water is polluted by new uncontrolled industries, wherever land is eroded by poor construction of roads or buildings and wherever dams and electrical systems unnecessarily degrade forests or displace tribal peoples, there is environmental degradation -- usually unnecessary environmental degradation.

As others on this panel will be telling you more about poorly designed or poorly executed projects, I will confine myself to an overall observation about the World Bank's record in the modern sector. The World Bank's record in avoiding siting industrial facilities at inappropriate places and in avoiding or abating pollution has improved greatly over the years. The same thing cannot always be said for its record in building dams, roads and other major public works. Also the Bank still all too often has shown lack of sensativiity about displacement of people to accomodate development or has failed to insure proper supervision during project implementation. This has led too often to unacceptable or unnecessary environmental damage.

As to the record in the modern sector of the other multi-lateral development banks, I frankly am not up to date enough about the work of the African, Asian and Inter-American Develpment Banks to give you a clear picture of what is happening.

The Banks and the Traditional Sector

Let us turn then, to the work of the banks, particularly the World Bank, in their activities outside the "modern sector," in their work for the poorest people, particularly rural people living on less than desirable land. We must also look at how International Development Associaton is doing on forestry, fuelwood and watershed protection projects designed both to protect the integrity of threatened ecosystems as well as the people living in or around them. In judging the Banks' performance in these areas, there are several kinds of questions to ask: Does the Bank recognize the real problems involved and then know what to do to correct them or abate them? Has the Bank formulated policies and procedures necessary to meet these problems? If the Bank knows what to do and how to do it, does it have the will and the resources to persist and insure that the right thing is done? And finally, do Bank projects of these kinds turn out well? Let us examine these questions in turn.

The World Bank and Sustainable, Low-Input Agriculture

First, does the Bank understand how to carry out environmentally sound, sustainable agriculture on marginal lands? Does it share the growing vision of the need for holistic development of poorer lands through the use of low-input agriculture, combined with use of trees and in some cases livestock?

The answer at the World Bank is that increasing numbers of people at every level do understand, but still too few regard this prospect with enthusiasm. There are areas in the Bank, particularly in the African regional office, where there is an increasing and, as far as my judgement is accurate on this rather technical subject, very sound appraisal of the problems of growing food and cash crops on marginal land. Yet, somewhat to my surprise, there is widespread admission in the Bank that they still don't know how to cope with a variety of problems of launching this kind of project, certainly not in a "cost-effective" way and certainly not in a way which will insure increases in production which will keep up with rapid population growth.

For one thing, despite the enormous amount of research carried on during the last three decades about agriculture in the developing world, a surprisingly small part has been devoted to low-input agriculture, to production in rain-fed areas and to specific methods for marginal lands. And what experiments there were on these subjects tended to be small, scattered and under-funded. The focus for Bank-financed agricultrual research has been the Consultative Group on International Agricultural

Research institutions, which the bank has generously financed. Speaking generally, these institutions have tended until very recently to concentrate their efforts, I think to a great degree understandably, on increasing food production on lands that are rich enough to support more intensive agriculture and in areas where people have been willing and able to absorb the lessons of higher input "green revolution" methods.

Happily I have found more and more Bank officials that think they know what has to be done to launch successful low-input agriculture. They seem to recognize also what needs to be learned before starting major projects. They recognize that pending the development of the seeds, and the other parts of appropriate "technical packages," other less thanperfect means must be tried. This experience will advance the state of the art about how to bring about grass roots participation by farmers in the planning and carrying out of projects in marginal areas. They are in the interim also learning how to develop more effective, more down to earth methods of extension, and how to develop better methods of field trials of new agricultural technology under real farm conditions -- under work conditions that will be realistic and acceptable to average farmers. Buying time constructively -- perhaps for as long as 10 to 15 years--until more is known about low-input agriculture particularly in marginal areas -- is one of the great challenges facing the whole development community and even more poignantly a series of very poor countries and their peoples.

Without major technical help from the whole global research apparatus, the outlook is very dark, for except in a handful of cases, the developing countries simply do not yet have the scientific strength to tackle these difficult scientific and human problems.

The second question posed was if the Bank recognizes the importance of low input agriculture, particularly for marginal areas, has it established official policies to promote it? The answer I get from Bank officials is "not yet, but we may soon," particularly as far as the Bank's African operations are concerned. A policy paper on African agriculture which is said to embody many of these concepts is about to be made official. As early as 1984, the Bank released a very influential study, "Desertification in the Sahelian and Sudanian Zones of West Africa." This report deals with the problems of marginal agriculture and is worth your Committee's careful review.

What appears to be evolving rapidly in the Bank's African regional offices seems to be moving much slower in other parts of the Bank and very little in the three other regional banks. Low-input agriculture, tree planting and soil conservation simply is not seen by many development officials as the best way, or in some cases even a viable way, to pursue development. Only strong outside pressures, intellectual as well as political, and several more years of experience, will cause this to change.

It is harder to answer the question of the Bank's "will" to carry out low-input agriculture at this early stage. The two best ways that I can think of to measure this "will" are: Are Bank officials, in their policy dialogues with developing countries, urging governments not only to request Bank funding for projects embodying these principles but also to apply these same principles to their own agricultural programs? And secondly, are any such projects now in the design stage or being carried out? The answer given by Bank officials in the African regional offices is that, yes, such discussions are being held with African government officials, and, yes, a number of such projects are in the design stage. As for other regions and other banks, there is no external evidence that these influences are working. Meanwhile, even if as suggested, "three or four" African projects have been started that embody these principles, this is not enough. It is also too early to try to evaluate their merits.

The World Bank and Forestry

A more satisfactory picture emerges on the forestry record of the World Bank. In the first place, there has been clear Bank recognition of the importance and viability of what they and many others call social forestry, forestry oriented towards broader and more environmentally responsive needs than the plantation and industrial foresty that had until the last decade almost totally dominated the Bank's forestry portfolio. A very good indicator of the Bank's recognition of social foresty -- fuelwood production, agro-foresty, watershed protection through reforestation and better forest management -- was clearly shown in the Bank's recent co-sponsorship with the World Resources Institute, the Food and Agriculture Organization and the United Nations Development Program of Tropical Forests: A Call for Action. This study provides an excellent blueprint for a coordinated attack on the problems of forestry in the tropics.

Does the Bank know how to approach these forestry problems technically and on the human level? The answer is in the main yes, although its foresters recognize that several kinds of research are still needed, particularly in finding the right kinds of more productive trees for firewood and other badly needed wood products in arid and semi-arid areas where consumption already greatly outpaces production. The Bank knows also that forestry research, including agro-forest research, for lesser developed country situations needs to be better organized and better financed.

However, I have not yet seen concrete evidence that the Bank, alone or with other donors, has as yet taken decisive enough actions to carry these stated views into reality. Certainly the Bank has good enough, in fact, excellent, policies to back up any actions it wishes to take. Its forestry paper is in most respects a model for this generation of development thinking and action on this subject.

Yet in practice, there are still major gaps in the World Bank's forestry performance as seen from an environmental viewpoint. This I say despite the rise from 5 non-plantation forestry projects for $34.4 million total in 1975 to 12 projects for $332 million in 1985. This is a very credible rise, but it is not great enough from either of two viewpoints: The Bank has the money, the technical capacity and the demand from borrowers, potential at least, to perhaps double that number of projects. Also, the Bank is still nowhere active enough, I am convinced, in efforts to persuade developing countries to put a much greater emphasis on the various aspects of social forestry or to encourage these governments to request more help from the Bank.

There is one more aspect of the production side of forestry (as distinguished from its protection side which I will discuss later), which I consider negative. I see no excuse to continue to destroy viable natural forests just to establish tree plantations as long as degraded lands which were formerly under prime forest cover remain available for planting.

The World Bank and Soils

Closely related to forestry in development thinking is how to preserve or, in fewer cases, restore the integrity of the soil on which agricultural production depends. I am talking here chiefly about the prevention of water and wind erosion: how to use trees and plants in shelter belts, stream and roadside plantings, and sand dune fixation; and how to incorporate into development projects a whole series of physical measures (terraces, berms, water containment ponds) to stop erosion or to avoid undesirable water runoff.

World Bank technicians have studied these problems extensively. They seem quite broadly to have reached what I consider two correct conclusions about soil projects: that the latter are usually so important they should be incorporated holistically and as fundamental components of every agricultural and river development project, but not except in unusual cases as separate projects; and, that because the construction of physical soil conservation installations (particularly terracing) requires so much initial labor and later maintenance, they should be undertaken only when it is clear that the farmers involved really are convinced that these new installations are so necessary to their welfare that they will be willing to expend the time and energy to build and maintain them. The Bank has done a lot of experimentation in this field and has moved away from complex and expensive soil conservation installations to cheaper and simpler ones. Nevertheless, I believe that the Bank - in fact, the banks - must do more in the area of soil conservation. Protection of whole watersheds, barely begun, must occupy a much bigger place in bank portfolios, a fact which the World Bank now seems to recognize. In many areas the physical preservaton of soils is a sine qua non of continued habitability.

There is a whole different side of the soil equation that needs greater Bank attention: how to provide, or if necessary restore, the required mineral balance in the soils particularly for low input agriculture? The World Bank clearly recognizes this problem. Much attention has been concentrated on the use of fertilizers and mulches to support intensive agriculture, particularly rice, wheat and corn when planted under high-input "green revolution" conditions. The Bank has more recently urged the Consultative Group on International Agricultural Research institutions to concentrate on ways to provide the right balance in low-input agriculture through bush fallow interplanting, greater use of nitrogen fixing covers, and many other promising methods. But the bank has barely begun even medium-sized efforts to transfer these methods to subsistence farmers.

Another promising area of research and development which has, as far as I have been able to determine, not been given enough attention is providing sources of relatively rudimentary lime and phosphorus to subsistence farmers. I am told that almost every developing country has enough rock containing lime and phosphorus that could either be simply ground up or treated in a relatively simple way to provide this necessary input. The Bank does not appear to be doing anywhere near as much as it should in this regard. This is urgent work, for imported and petroleum-based fertilizers are already too expensive for all but the most efficient and well-positioned Third World farmers and soon may not even be available - at first for lack of foreign exchange and later perhaps because of petroleum depletion.

The MDB Role in the Protection of Natural Areas

Mr. Chairman, Congress has also recommended that the multi-lateral development banks prevent the destruction by bank projects of important natural areas in the developing countries

-- by unwise road building through tropical forests; by clearing prime forests for cattle raising or agriculture, particularly when the underlying soils will not sustain production; by unwise flooding of natural areas; and by destroying important coral reefs and mangrove swamps -- to mention only a few examples.

Congress' message to the MDBs that they must take much greater care to avoid destructive projects in important natural areas has gotten through. Your strong concern that the banks must not through unwisely conceived or executed projects contribute needlessly to the destruction of biological diversity or the depletion of the environmental services offered by natural systems has been heard by officials at every level, particularly in the World Bank and the Inter-American Development Bank. This message has already had a positive if still limited impact on many environmental aspects of these organizations' work. I won't comment on this subject further in detail except to congratulate your committee and others in Congress, as well as Bruce Rich and the Natural Resource Defense Council and the World Wildlife Fund-US, which supported his work through the formative period.

There is another side of this work, though, which I believe should receive much more attention from the multi-lateral development banks, particularly the World Bank. That is the positive protection of key natural areas directly through bank projects. The Bank has been under considerable pressure for several years to define a policy in this regard and to carry it into effect through more Bank projects. And for about two years, the World Bank has had under consideration an excellent draft policy statement on the Bank's management of "wildlands," which it defines as "natural land or water areas that are virtually unmodified by human activity." I recently received a letter from the President of the World Bank in my capacity as chairman of the Tropical Forestry Working Group indicating that this paper would soon be published and become Bank policy.

If it remains in the form that I have seen most recently, this will be an important step ahead, for this paper calls for elements for protecting wildlands be regularly and systematically incorporated into projects where any substantial amount of wildlands would be "developed." This would be done by the establishment of equivalent acreage of protected areas, backed up by training of management, provision of necessary equipment and efforts to insure necessary local and central government political, financial and material support to insure that they did not become protected areas in name only. All this (particularly the latter task) will require much more commitment and determination on the part of Bank officers in their dealings with LDC development authorities and an insistence that carrying out these commitments be the condition for further Bank support in a given country or region of a country.

It should be recognized here that the World Bank has already begun this process. The paper I cited states that some 40 projects for the protection of wildlands have already been funded. A good many of these, however, seem to have involved incidental, but necessary and desirable, alleviation of negative project impacts, such as relocation of animals whose habitat was destroyed by dam construction and flooding. Certainly the Bank has a long way to go before it is playing a truly constructive role, let alone a lead role, in the very necessary preservation of biological diversity.

MDB Role in Training and Institution Building

Time and again both the multi-lateral development banks and their critics have made the very central argument that the work of the banks must in the final analysis be judged by how well they help the peoples and institutions of the developing countries to handle their own affairs, including very specfically the management of their own natural resources and environment. Very fundamental participation by the scientists, technicians, planners and government officers in every aspect of the planning, implementation and review of natural resource and environmental projects is absolutely necessary if these people are to learn from mistakes as well as successes.

It is easier and certainly much cheaper, less time consuming, and often considered more efficient to rely entirely on outside experts to design and carry out projects. Certainly outside experts are almost always important to provide needed expertise and momentum to most projects. The proper use of outside experts, follow-on projects and small personal incentives needs to be further developed by the banks, particularly for environmentally oriented projects which as a group need special onward encouragement.

But what the people of the developing country do and learn is the most important. From my own observations, the World Bank's record in this regard, while spotty, is getting better all the time. But it still needs improvement. There is still a quality of arrogance that "father knows best" and not a little impatience by some at having to be bothered in the design of the best possible projects.

Of course, beyond and behind almost every problem of development is the lack of well trained people. On-the-job training of the kind which is provided by participation in planning, and implementation and review of multi-lateral development bank projects is only part of the story, and providing more formal, out-of-country training both at the academic and at the practical level is very important.

Congress has called on the multi-lateral development banks in their own formal in-house training to introduce much more consideration of environmental questions and natural resources management. I am told by officials at the World Bank that several courses with a natural resource orientation are planned for the coming year and, impressively, the Bank's Annual Report in November dealt with the relationship between economy and ecology. A look, however, at the list in the Bank's 1985 Annual Report of courses offered by the Bank's Economic Development Institute does not easily reveal any such courses for the year under review. Given the tendency of Bank training officials to concentrate very much on purely economic considerations, it will take more push to insure that natural resource considerations take their proper place in the curriculum of the Economic Development Institute.

I have not found it easy to get a handle on the amount of out-of-country environmental academic training of LDC nationals that the World Bank finances in connection with its projects, or of the extent of its actual training of lower level officials in, say, extension sevices. I am aware, though, of some thoughtful Bank - sponsored seminars on extension. The Bank has extended substantial practical research in developing models for better extension services. Its successful work on the "training and visit" system developed in India is a good example.

The Importance of Population Programs

Mr. Chairman, at this stage, I have reviewed a number of areas of multi-lateral development bank activity which together demonstrate the degree of those institutions' concern about natural resource aspects of development. I would not be presenting a comprehensive picture if I did not mention the importance of their population programs.

With the doubling of the population every 20 years in most African countries, for example, there seems to be little chance several years from now with presently known technology of even feeding the growing mass of people of those countries, even in years of good rainfall, let alone improving their living standards. In other areas, the situation is less desperate, but only in the few countries of Asia that have coped well with their population problems is there a rosier outlook. And everywhere in the developing world, rapidly growing populations are pressing on and too often seriously degrading the natural resources -- the land, water, and air -- on which they must depend.

Nothing but continued and pointed concentration on helping the peoples of the developing world cope with their population problems will suffice. I am not well enough informed of the record of the multi-lateral development banks on population programs to give any judgement of how good they are, but you should find out. Let me simply say that everything that these organizations do should be related as closely as possible to population programs, and every possible leverage should be used to hasten the day when the developing countries can carry out effective population programs. Make no mistake, the negative connection between rapid population growth and resource deterioration is direct and deadly.

Third World Debt and Environmental Degradation

Mr. Chairman, there is one recent development that demands close attention lest it result in unacceptable environmental degradation, and that is the potentially negative impact on the natural resource base of developing countries if their creditors were to insist on certain actions to speed the repayment of foreign debt.

Observers have theorized that several impacts might take place: first, that debtor governments, anxious to maintain their credit worthiness, might cut more timber in tropical forests or plow more land to plant cash crops to earn foreign exchange to pay debts. Evidence on that score is narrow. Indonesia, the Ivory Coast and Thailand are said to have stepped up timber sales, but trade statistics do not show this clearly. There are no reports that I could find of plowing new areas to produce cash crops in order to pay debts. Small farmers in Brazil are being displaced and pushed towards the tropical forest by large cane growers who produce sugar for ethanol to fuel automobiles and trucks in place of imported petroleum. There are probably other so far unidentified sources to be examined.

A second possible source of pressure posited is from creditor nations, the International Monetary Fund, the American and European Banks and the multi-lateral development banks. These organizations are urging a great many third world debtor nations to undertake programs of reform and austerity, particularly to reduce government expenditures. This could well include expenditures on the environment -- salaries for ministries of environment, expenses of national park managers, and postponing environmentally sound projects. There is some but not much data on this point. Unfortunately, it is true that developing countries tend to consider environmental expenditures marginal and probably do cut them early on. More research on this point is needed.

A contrary effect, one which could help the environment, has also been suggested: that under International Monetary Fund and other pressures, some environmentally damaging projects such as expensive roads in tropical forests and unwise dams might be abandoned. But this would probably be so only to the degree that developing nations themselves, and not foreign lenders like the multi-lateral development banks, were financing such projects. Again, we lack project-specific information.

How best can we get to the bottom of all this? One way to do so is to conceptualize the problem in terms of actions taken and pressures exerted by creditor institutions and by examining the leverage they have: the United States (for AID and PL 480 loans, among others); other industrial countries; the American and foreign private banks, which are the big creditors (they have less leverage unless extending new loans and tend to rely on the International Monetary Fund to impose conditionality and make possible their repayment); the International Monetary Fund itself, the big enforcer of austerity; and the World Bank and other multi-lateral development banks.

I have not had the means to track down data on any of these debt flows except in the case of the World Bank. I have been informed by the Bank that, by charter, debts owed to the Bank cannot be rescheduled. However, only one developing country has a net flow of debt service and debt repayment in favor of the bank. That country is Venezuela, which owes for old IBRD loans, although it has not borrowed for many years. In every other case, more World Bank group dollars are flowing to debtor governments that are being repaid. Furthermore, most of the World Bank loans to the poorer, more environmentally threatened countries are extended at very low interest rates, with 50 years for repayment and a long grace period before payment must begin.

The Environmental and Energy Study Institute, for which I am testifying today, recommends in the study I cited that Congress assess the feasibility and desirability of cancelling or rescheduling part of the debt owed to the U.S. government in exchange for developing country efforts to undertake environmental and natural resource projects which will improve the long-term prospects for sustained growth and debt repayment; for Congress to review potential incentives to encourage private sector commercial banks in the United States to reschedule or forgive portions of their loans in exchange for similar environmental or natural resource projects; and, finally, for Congress to examine the policies of the International Monetary Fund that may result in environmentally unsustainable development. To achieve this, the Study Institute urged that Congress commission a study to examine the foreign debt situation and the feasibility and desirability of the measures suggested above.

I strongly endorse the early launching of such a study -- to determine the magnitude and impact of these various debt categories; to explore how foreign debts would translate into funding for environmental or natural resource projects; and to determine just what kind of pressures on environmental institutions and projects are being exerted by creditor institutions.

The United States Treasury, under the so-called Baker plan, is also urging new lending to debtor nations, and the possible positive and negative aspects of this plan, as well as that of the structural adjustment loans being made by the World Bank and AID, should be thoroughly explored.

To accomplish all this, we urge the House Committee on Banking, Finance and Urban Affairs to request the Congressional Research Service to initate an immediate literature search to disclose as much published information on this subject as possible. On the basis of this information, your Committee could then write terms of reference for a more thorough and early "scoping" study by the Office of Technology Assessment, leading to recommendations for possible legislation. In the process, the views of concerned Treasury Department officials and the information available to them should be fully explored.

Where To Go From Here?

I hope that in this too scanty summary of what concerns the World Bank I have been successful in projecting two basic views. First, I have great hopes that the Bank can and will become a major instrument for carrying out development which is solidly oriented environmentally. The Bank has the money, the organizational strength, the ability to hang in there on difficult projects year after year and the resiliance to accept and learn from failure. Secondly, however, the bank still has many problems to straighten out in its environmental performance. It changes slowly. One of its non-American top officials recently told me that the bank runs a decade behind AID in thinking out problems and changing policy and that its environmental policy was one such example. I think all this is basically true but not as bad as portrayed. Like all living organs, change at the bank does occur, and the Congress and this committee can in my view play a very constructive role in hurrying the pace of change.

In figuring how you are going to proceed, you should take into consideration several characteristics of the Bank. One thing above all which needs to be done is to develop more and better public information about Bank plans and operations. In the case of environmentally sensitive projects, it is particularly important to develop public information early enough to help avoid mistakes. The Bank is not a very open organization. But with the help of the many organizations which are now taking a close look at the Bank's operations, this Committee should gradually be able to expand its grasp about what the Bank is doing. And through inviting testimony from the U.S. Executive Director to the Bank and from officials of the Treasury and State Departments, your committee can help enormously in opening up the Bank's operations to discriminating and constructive scrutiny. This will take patience and determination.

Secondly, the Bank is to an unusual degree run by its top management. It has less than most organizatons to cope with outside political pressures and daily events. Its president, executive vice president and other top managers clearly run the place and give it its character. Fortunately, these people are increasingly sensitive to the views of Congress and count on you to resist possible proposals of the U.S. Executive Branch to cut the US share of Bank fund replenishment.

You should, without making threats, but by making your views clearly evident, use this leverage to the maximum through sending very direct messages to the bank, however indirectly delivered. You will have a very good opportunity to use that leverage in the period just ahead, when the new president of the Bank is coming on board and is beginning to make his mark, for as in the first days of Robert McNamara, determined presidential leadership in the Bank can make all the difference.

However, even if the World Bank develops the will to put much greater emphasis on the kinds of programs that I have outlined here and even if it determines to avoid environmental mistakes by making earlier and much more thorough impact assessments, even then the Bank as presently organized will be hard put to carry into effect good environmental programs. The problem is, as indicated in Congress' mandate to the Secretary of the Treasury, the Bank does not have enough environmentally trained professionals, and they are not in the right places.

The Bank needs, in my opinion, to do two things at a very early stage to meet this problem: It needs to double the number of specialized environmental personnel in its Office of Environmental and Scientific Affairs. These people provide overall guidance and technical direction to all the Bank's projects. It then needs to establish small environmental offices directly under the vice presidents for each region. These people should have responsibility for reviewing at very early stage in the project cycle the possible environmental impacts of every one of that region's projects.

Mr. Chairman, I recognize that I have said very little about the environmental policies and performance of the African Development Bank, the Asian Development Bank and the Inter-American Development Bank. The truth is that there is not yet that much to say about their environment enhancing projects, or at the very least, there is not yet much on record. What you recommend for the World Bank can almost surely be applied also to these banks, for in my view, they all have along way to go environmentally.

Thank you for inviting me to testify today. It's an honor to be able to contribute to your important work.

Chairman LUNDINE. Thank you.

Mr. Repetto.

STATEMENT OF ROBERT REPETTO, WORLD RESOURCES INSTITUTE

Mr. REPETTO. Thank you, Mr. Chairman.

I will just try to summarize briefly the main points of my presentation.

Chairman LUNDINE. I really appreciate it.

Mr. REPETTO. The first point I want to stress is the importance of the positive role that the MDB's have in environmental protection in the Third World. Bank-financed projects are the tip of the iceberg in these environmental pressures in the Third World.

The Indian Planning Commission, for example, approves $8 billion of projects every year. That is almost as big as the World Bank's portfolio.

If the MDB's pay attention, as indeed they should, to making their own projects environmentally clean, but don't pay attention to the broader world, they are really living in a fool's paradise, because the Bank-financed projects are generally among the more carefully planned projects that are being implemented.

I think there are three important positive roles for the MDB's. Probably the most important is to help in strengthening the capabilities of borrowing countries for environmental management, the sort of action that the EESI report mentions.

These agencies in most developing countries are new; they are weak; they don't have the people; they don't have the regulatory framework; they don't have the legal framework; they don't have the data; they don't have the monitoring systems or the enforcement mechanisms; and they generally get streamrolled by other parts of government.

There is a danger that they can be overwhelmed. Training and technical assistance support in a systematic and energetic way by the MDB's can make an awful lot of difference and is vitally important.

Second, it is important for the MDB's to bring environmental protection into the main stream of development activity, so that it won't be treated as an additional requirement or as a constraint on development activity, but rather as an important field of development in itself.

The way that this can be done is to make clear the economic losses that follow from degradation of the resource base. Once this is clear, then environmentally beneficial investments will be seen as economically important, with an economic rate of return like other kinds of investments. They then become a mainstream activity of the Banks and of the borrowing countries. When we are in times of economic stringency, as we are now, they won't be relegated to a lower priority and deferred. This will facilitate the increased volume of lending for economically beneficial projects that is so important and for which there is such a backlog of unmet needs.

I would like to mention, although I don't monitor the activities the Banks in a systematic way, that there have been significant initiatives along these lines. The World Bank, for example, has initiated a substantial review of the ways in which it can bring the economics of natural resource management more fully into its project sector, and country work. This is an important step.

All the multilateral development Banks do lend for environmentally beneficial projects, watershed protection, social forestry, rehabilitation and management of irrigation systems, drainage, water quality, and improvements in the urban environment. I think these are very important activities, which ought to be recognized and encouraged.

Third, an effort is beginning to provide systematic technical assistance to help developing countries manage their environments better. The Asian Development Bank has recently initiated a program of training and technical assistance along these lines, and that sort of activity also ought to be promoted and encouraged further.

The rest of my testimony, Mr. Chairman, has to do with the environmental activities of the MDB's and the debt crisis.

First, I would like to say that it is not at all clear what the effect of the debt crisis is on the natural resource base in developing countries. It is not clear to me, at least, whether economic retrenchment under the burden of debt is worse for the environment than unbridled growth on borrowed money. I think the pressures, where they are arising, and what can be done about them needs to be looked into much more carefully.

The implications for the development Banks I think are substantial. More and more attention is being put on structural adjustment loans, nonproject lending, policy conditions attached to debt reschedulings. Policy conditions are becoming much more important.

It is important, I think, that the attention given to the environmental implications of project design is parallel by attention to the environmental implications of policy conditions attached to structural adjustment lending, debt reschedulings, or any of these other forms of financial transfers to deal with the debt problem.

We have been working on this issue for some time, and we at World Resources Institute believe that there are important opportunities to manage natural resources better, to reduce fiscal burdens on government, and to raise economic productivity—all at the same time. These are the kinds of policy conditions that need to be identified, highlighted, and brought into the policy dialog between the MDBs and developing countries.

I will just give you a few examples that are listed in my testimony. Large-scale water projects have had serious environmental ramifications which we are familiar with now. It is known that most countries could achieve their agricultural growth production targets with the irrigated acre they now have if water were used efficiently and if the yields in that irrigated area were what they ought to be.

Few countries now have appropriate incentives for the use of water. Water charges don't even cover the costs of operating and maintaining the irrigation systems. This contributes to the inefficient operation of the systems, to inefficient use of water by farmers, to a pork-barrel approach to the funding of water projects that we know very well in our own country. It leads to enormous fiscal pressures on government for additional spending and borrowing.

The development community is practically unanimous that water charges and user charges ought to be raised and this is important environmentally, it is important economically and it is important fiscally. It is the kind of condition that is central to development that is sustainable both financially and environmentally.

In forests, the same story. Most countries with abundant forest resources have been selling timber to concessionaires for much less than it is worth. The result has been timber booms in a number of countries—in the Philippines, in Indonesia and in the Ivory Coast. The commercially attractive timber has been stripped quickly, harvested quickly, and the national benefit has been much less than it ought to have been.

A more appropriate revenue system would lead to more conservative, rational long-term use of the forest resource. It would lead to better export performance where the countries export timber products, and it would lead to a better fiscal result.

In energy one can tell the same story. Improper energy pricing and all sorts of tax breaks and tax expenditures for energy producers weaken incentives for energy conservation, which is the most important long-term goal in the energy sector.

These kind of policy reforms have been on the agenda for the MDB's for some time. They have been discussed in the context of lending programs and sector programs, mostly in the contest of fiscal and economic objectives. Their environmental importance needs to be recognized as well.

If there are ways in which the MDB's can be supported and encouraged in efforts to achieve policy reforms that would help resolve the debt crisis and help resolve the environmental crisis in the Third World, it would be well worth doing.

Thank you, Mr. Chairman. I will be happy to answer any questions that you might have.

[The prepared statement of Mr. Repetto on behalf of the World Resources Institute follows:]

Statement of Robert Repetto
on behalf of the World Resources Institute
before the Subcommittee on International Development
Institutions and Finance
of the House Banking Committee
February 26, 1986

MULTILATERAL DEVELOPMENT BANKS AND THE ENVIRONMENT

Mr. Chairman, my name is Robert Repetto. I work at the World Resources Institute in Washington as senior economist. Previously, I have taught environmental economics at Harvard University, and have worked for many years as a development economist in Asia. I appreciate the opportunity to testify today.

A. MDB Opportunities to Strengthen Environmental Management

At earlier hearings on this Subcommittee's recommendations regarding the environmental activities of the multilateral development banks, I suggested that if the MDBs were to grasp their opportunities to help developing countries protect their natural resource base, some important changes were needed.

Borrowers and lenders have to recognize more clearly that degradation of natural resources results in serious economic losses, and can undermine development programs. Recognizing this brings environmental activities into the mainstream of the MDBs' lending operations. Environmental protection is then no longer viewed as a constraint on bank operations, or as an additional requirement, but rather as an important field of development activity itself.

If the Banks estimated the economic losses from soil erosion, degraded water quality, depleted biological stocks, and other environmental disturbances when they evaluate the costs and benefits of development projects, the rationale for avoiding these damages and investing in the conservation and rehabilitation of natural resources would be obvious -- both to the Banks and their borrowers. There are large unmet investment needs for soil conservation, watershed protection, reforestation, and so on. In these times of economic stringency, unless the economic rationale for these investments is clearly understood, they will probably be assigned a low priority.

There is an analogy: twenty-five years ago, the accumulation of capital was thought to be the key to growth. The human contribution was the supply of labor -- usually in surplus in the developing countries. The MDBs invested in power plants and highways, and most developing countries embarked on excessively capital-intensive development plans. The World Bank later played an important role in demonstrating the economic returns to investments in people -- in the form of higher productivity. Large-scale investments in health, nutrition, and education followed. A similar intellectual shift is needed to demonstrate the returns from investments in natural resource productivity.

The MDBs can easily be leaders in bringing about this shift.

They also have an important opportunity to help borrowing countries build their own capabilities to manage their environmental assets better. There is concern in most developing countries about environmental stresses, and many have passed laws and created agencies for environmental protection. However, these agencies lack technical information, monitoring systems and field data for natural resource management, and trained personnel. Operational systems of regulation and enforcement are weak, and vocal, organized, environmental movements are embryonic.

While it is important for the MDBs to strengthen their own internal procedures for environmental control in Bank-financed projects, the much broader and more significant opportunity is to help build the institutional capabilities of borrowing countries. MDB-financed projects are a minor part in the investment portfolios of developing countries, and are usually among the most carefully planned anyway. Helping to strengthen the capabilities of developing country institutions, so that they can manage the environmental effects of their entire development program, will have a far greater effect.

B. Significant MDB Initiatives

While I don't monitor the activities of the MDBs, I am aware of significant recent initiatives along lines such as I have just described. For example, the World Bank is reviewing the way it treats the economics of natural resource mangement in its project, sector, and country work. An objective is to find ways to incorporate the economic costs of environmental disturbances more effectively into operational analyses of projects and programs. This is a significant effort, and the World Resources Institute and others are working with the World Bank on it.

The InterAmerican Development Bank, the Asian Development Bank, and the World Bank have all, to my knowledge, made substantial investments in projects to preserve and enhance the natural resource base. These include investments in watershed protection, reforestation, drainage and rehabilitation of irrigation systems to improve water management, recycling of industrial waste products, energy conservation, and in projects to improve the quality of the urban environment. Projects of this nature are not insignificant fractions of their current lending programs.

Recently, the Asian Development Bank has begun an explicit program to strengthen borrowing countries' institutional capabilities for environmental management -- as advocated above. They will provide training and technical assistance in formulating regulations, establishing monitoring systems, strengthening enforcement procedures, and the like. In a more diffuse way, other MDBs are providing relevant technical assistance and training, as well.

To sum up this point, the MDBs are making positive contributions to natural resource management in the borrowing countries, through lending, technical assistance, and innovations in analytical methods.

C. Environmental Activities of the MDBs and the Current Debt Crisis

The continuing debt crisis has undoubtedly pushed environmental concerns into the wings in many Third World countries. Austerity measures have cut the budgets of environmental agencies, and impeded institution-building efforts. Living standards have stagnated or fallen. Moreover, some fear that, by forcing heavily indebted countries into all-out efforts to raise export earnings, the debt crisis has intensified pressures on the natural resource base.

Those concerned with environmental losses in the Third World cannot ignore the current debt situation, nor should those fashioning adjustment policies ignore the need to establish development policies that are sustainable both in financial terms and in terms of natural resource use.

MDB lending is shifting from discrete project support toward structural adjustment and policy adjustment loans. Debt reschedulings or write-downs also focus on broader policy conditionality. Better attention to environmental aspects of project design should be paralleled by attention to the environmental implications of economic policy charges that are recommended and adopted to restore financial balance.

Fortunately, in most Third World countries there are policy changes that can simultaneously protect natural resources, reduce fiscal imbalances, and promote renewed growth by raising economic productivity. The MDBs should clearly identify and stress these opportunities in discussions with borrowing countries about structural adjustment and overall development plans.

It may sound optimistic to claim that there are policy changes that can promote all these goals at once, but we here today should be familiar with the possibilities, because the United States is facing many of the same choices in designing tax and budgetary changes to achieve fiscal balance. For some time, the World Resources Institute has been studying these policy changes needed to achieve more sustainable development in cooperation with the World Commission on Environment and Development, and are continuing this work in cooperation with the World Bank.

1. Water

Take water resources, for example. Large-scale irrigation and hydro-electric developments have had serious environmental impacts, such as displacement of people from flooded lands, downstream changes in river hydrology and ecology, waterlogging and salinization of soils, mineralization of drainage waters, and so on. Many of these effects could be reduced by more efficient project design and operation. The need for yet more such projects could be reduced by raising the efficiency of available water use.

Yet, few developing countries collect user charges even sufficient to cover the operation and maintenance costs of irrigation systems. This contributes to their inefficient operation, to the inefficient use of water by farmers favorably placed to receive it, to a "pork-barrel" approach to project selection and design by potential local beneficiaries and their political representatives, and huge fiscal costs to the central government. MDBs in the past have pushed, with little success, for greater cost recovery from beneficiaries and realistic water charges.

This is very familiar to us in the U.S., where irrigation water from the Bureau of Reclamation is priced at a small fraction of the full economic supply costs -- with many of the same effects, including losses in potential federal revenues of about a billion dollars a year.

2. Forests

In most developing countries with important forest resources, forests are being depleted and used wastefully. One reason is that timber from the public lands is sold to concessionnaires for far less than its economic value. The result in many countries, including the Philippines, Indonesia, and the Ivory Coast, has been "timber booms" that rapidly -- and wastefully -- depleted the commercially attractive stands. Not only was there rapid deforestation, but also the gains to national treasuries were much less than could have been captured. Better designed forest revenue systems could promote more efficient long-term management of the resource, with more benefit to the host country.

The analogy in the United States is the Forest Service's practice of selling timber from national forests much below the cost of growing and harvesting it. Recreational and conservation uses are compromised on over 100 million acres of national forest area that is unfit for sustained commercial timber production, which can only be maintained by below cost sales. The annual cost to the US treasury is about $100 million per year.

In some Third World countries, notably Brazil, deforestation has been accelerated by generous tax and credit subsidies to competing land uses, such as cattle ranching. Long-term loans at negative interest rates, tax credits for ranching investments and tax holidays for income attributed to ranches, made deforestation a profitable tax shelter, even though many of the operations made little ecological or economic sense. These implicit subsidies have also contributed to government budget deficits and inflation.

We in the United States have analogous policy issues, such as the capital gains treatment of timber production, and the issuance of BLM grazing permits for public lands at below market fees. Such policies undermine natural resource management and efforts to achieve fiscal balance.

3. Energy

In the use of energy, which has so many environmental impacts, the key is raising energy efficiency -- the amount of useful service derived from a given amount of energy consumption. In the United States, energy efficiency has risen about 30 percent since the first oil crisis, mostly because higher energy prices stimulated energy-saving investments.

Although energy prices and incentives have been rationalized in many Third World countries, many important exceptions remain:

- o electricity prices well below long-run marginal costs;
- o fossil fuel prices well below even today's international prices;
- o all kinds of tax breaks and subsidies that distort energy production incentives.

These policies discourage energy conservation, and so result in more environmental problems in the long run. Often, they aggravate external imbalance, by reducing energy exports or keeping energy imports high. They also either lose government revenues or raise government outlays, making it difficult to reduce fiscal deficits. These issues are familiar in the United States: favorable treatment of energy industries in the tax code costs the treasury about $ 40 billion per year, and regulated energy prices have distorted consumers' incentives toward energy conservation.

D. Implications for MDB Environmental Concerns in the Debt Crisis

These are examples from a long agenda of policy changes that could move developing countries toward more sustainable use of natural resources and more sustainable fiscal balance. Most of these issues are not new. In fact, are been part of the economic policy dialogue between MDBs and borrowing country governments.

But, the record of success is mixed. As the analogies from US experience make clear, powerful interests defend their advantages. However, fiscal and balance of payments pressures during recent years have strengthened the arguments for reform, and many countries have made substantial policy changes.

Concerns for the state of the environment should strengthen the case for changes in economic policies that would promote less wasteful, sustainable, use of natural resources -- and at the same time, reduce fiscal burdens and promote higher economic productivity. Mechanisms like structural adjustment loans, which ease the pains of transition and accelerate the gains from policy changes, are useful MDB activities. A more complete agenda of policy issues and policy opportunities to promote sustainable development would provide appropriate matters for discussion and negotiation in the context of structural adjustment lending, debt reschedulings, and other forms of non-project financing, and for inclusion as conditions, if necessary.

Chairman LUNDINE. Thank you.

Mr. McCandless.

Mr. MCCANDLESS. The four of you have certainly covered the bases. I don't know that there is anything left here. [Laughter.]

But let me cover a quick area, if I may. With regard to the international financial institution, and the process of review for purposes of approval or disapproval of a loan, it would appear to me that one of the basic cornerstones of that decision would be the viability of the project and the viability of the project would certainly take into consideration whether or not the environment and the impact on the environment were going to sustain what it was that the project was intended to accomplish. And I will use Mr. Rich's example of the northeastern Brazilian project where it has been, to quote you on page 14, "a colossal economic failure."

And I am saying to myself, well, who made that loan? If we had some kind of a bank out here or an institution making a loan to the business sector and it was a colossal failure, it would appear to me that the ingredients involved in the decision-making process were somewhat improper or whatever you wish to call it.

Are we saying here that we are not taking into consideration those kinds of things from your point of view when international institutions are making loans, using this Brazilian as an example, where the basic reason for the loan and the basic reason for the project has been a failure, and without considering the environmental part of it, for example, 200,000 people that you say are suffering from malaria?

Chairman LUNDINE. Go ahead, Mr. Rich.

Mr. RICH. Well you have raised an extremely important point, which is an issue that has come up again and again in our discussions with high-level multilateral Bank staffs and in the review of individual projects such as this Brazil Northwest Development Program.

Unfortunately, what we suspect and what we have discovered is that there are very strong pressures within the Banks to keep the money moving, and that the incentives for not slowing down the project cycle and for lending large amounts of money within the Banks and within the regions can often overrule, not only environmental considerations, but other considerations of the sociological or technical viability of projects.

Both within the World Bank and outside the World Bank at the time that these six loans for Brazil totalling nearly a half billion dollars were being prepared there was a widespread concern that was expressed within the Bank and outside. For example, the chairman of the Harvard Department of Anthropology was constantly sending letters to the World Bank pointing out the unlikelihood of the Bank being able to control the influx of settlers and protect Indian lands and so on and so forth.

And that is a particularly tragic situation, I might add, because there were 8,000 Indians in that northwest Brazil program area not only whose cultural survival was threatened but in some cases their physical survival was threatened by the uncontrolled situation.

Nevertheless, the Bank went ahead in the face of outside protests by highly qualified people with a great deal of experience in

Brazil and we understand in the face of concerns that were voiced by the Bank's own agricultural and environmental advisers. It is a problem that perhaps this subcommittee should look into more.

Chairman **Lundine**. Mr. Repetto, you wanted to comment.

Mr. **Repetto**. I have a somewhat different comment. I think there are instances where Bank-financed projects have failed because of improper understanding of the ecology or of how people were going to behave. For example, the Banks, I think, would admit that many of its livestock development projects in Africa have failed.

Now there are a range of projects which while not intrinsically failures have had unintended side effects, because the environmental spillovers have not been adequately taken into account.

Mr. **McCandless**. A successful project, but with an environmentally flawed situation.

Mr. **Repetto**. Sure.

Mr. **McCandless**. Have you got an example of one you can think of?

Mr. **Repetto**. Well, you can take some irrigation projects which would lead to an increase in agricultural output, which was the intention, but have effects downstream on drainage waters and fisheries and have costs to other people than the intended beneficiaries which were not adequately dealt with.

There is a third set of development projects or activities which may be successful for the beneficiaries and highly profitable, but which are still environmentally and economically flawed. For example, a lot of the movement into the Brazilian Amazon was for ranching. Many of those projects didn't work, but they were essentially tax shelters.

The tax benefits and the low-interest, long-terms credits, were so favorable that investors could make money in a few years even if the long-term prospects for the projects weren't very good.

Mr. **McCandless**. I am not an anti-environmentalist even though I am from California and we have a California Environmental Quality Act which has created havoc in the State in some areas. But I see here we are talking about the need to take the environment and set it into the system of the actual loan review and it would be an augmentation to the application.

And I am asking myself where is the structure currently and why don't we use it? It is not being utilized. Certainly part of any loan portfolio, besides the profit and loss statement, are other considerations. The development of a shopping center, to use a local characterization, we have to consider what impact is that going to have on the road system and so forth. That is all a part of whether the loan gets through or doesn't get through, at least in California it is.

So why can't we just take what we have in the way of a current loan system and upgrade it to the point that it would provide a satisfactory basic element, and then if you got involved in some real far-out project, you might want to bring in consultants.

Whatever you want to do here, Mr. Chairman.

Chairman **Lundine**. I would like to ask for a brief response.

Ms. **Bramble**. I would like to take a crack at that, but I will be very brief.

I think in ideal circumstances what we are talking about is really the same as what you are talking about. We want to combine in one sensible loan appraisal system the look at both the economic and the social-cultural aspects of natural resources problems, potential problems not as a separate issue. We need to do it, but it ought to be done within the context of the normal loan evaluation question.

The problem is apparently that without specialists who even recognize the problem such as, for example, the transportation needs associated with a shopping center, and there are a lot more subtle ones than that of course, and you need a certain number of specialists who can recognize those problems to be able to add them to the decision- making process.

And apparently what has happened, and it is true in this country, too, a number of years ago. I mean what you are talking about of including all these things in the appraisal for a project that needs any kind of a permit or a loan, is relatively recent, and a lot of it did stem from the National Environmental Policy Act and the California Environmental Quality Act.

Perhaps they go a little too far in certain procedural requirements, but the point is correct. The point is just what you are talking about, involve all these aspects in your basic decision.

With the Banks apparently, without those specialists and with this pressure to lend more money and this feeling that the project itself doesn't necessarily have to succeed in every aspect because the government backs the loan regardless of whether the project succeeds or fails. So you have all sorts of incentives to go forward with a project without necessarily having dotted every "i" or learned everything that you need about what would happen if you did.

Basically what we are asking for is inclusion of all of the relevant aspects that will affect people and the environment and how the environment will in return affect the project, have all of that involved in the first set of decisions and as early in the process as possible when you can fix what might be wrong.

Mr. McCANDLESS. Thank you.

Thank you, Mr. Chairman.

Chairman LUNDINE. I am going to ask if it is permissible or possible for all of you to answer any questions in writing if we have them. I am not only out of time, not out of questions but out of time to ask them, but also I think there may be a couple of other Members of the subcommittee who may wish to.

Let me just say to conclude that I really have appreciated all of your testimony, and I agree with all of you that we do have to keep the heat on these areas where we have been working for some time and to refine them and understand better how we can be advocates.

I particularly appreciated, Mr. Repetto, your saying that the fiscal management, productivity, and the environment are not always conflicting and in fact often may be coinciding. I think unless we can be advocates of that sort, there is a condescending nature to this that we wealthy people have an idea for how you poor people ought to develop yourselves, and I really worry about that aspect of this subject.

But approached as you did, and I think in the spirit all of you meant, I believe we can make great progress and really and truly assist these countries to avoid some of the pitfalls that we have had to deal with in cleaning up things that were an incident to our industrialization.

Second, let me say that I have a great deal of skepticism, frankly, about all your ideas about Third World debt. The fact is that most of this money is owed to banks and you can call for rescheduling, but somebody is going to take a hit some place, and the question is who, and most Banks are not going to be delighted to forgive part of their loans in return for getting an environmental promise back.

Now I may hold a hearing about this. We are going to be holding some hearings on Third World debt in March, and we may even be proceeding with a bill in that regard. I want to give you notice of that fact, but I also am thinking about the possibility that maybe a less formal opportunity to dialog, I won't say argue because maybe I don't understand your positions well enough to know that I really want to argue with them, but to have a dialog about it might be helpful.

I won't bother you unless there are other Members of the subcommittee who share my viewpoint that maybe if we could sit down in an informal way and discuss these ideas with you that it might be more helpful to us and even advance your cause more.

So I did want to mention that so you will be thinking about it, and you might talk to me or talk to our staff about your reactions. I am not skeptical about the fact we have got to do something, nor that it would be ideal if we can achieve an environmental objective while we are doing it, but I would without lecturing you, remind you that it is a tough problem and it is a very, very difficult financial problem affecting really the world's financial structure.

I thank all of you very much for your time and making your statements.

Yes, Mr. McCandless.

Mr. **McCandless**. Recently I was invited to El Salvador and there was a project there of an extension of a waterline into the urban area, and it took great pains, and now I understand a little bit more why, to explain to us how they were replanting and taking the environment into consideration where the pipeline was being laid or would be placed. I thought I would mention that in passing that somebody got the message through to them on that one.

Chairman **Lundine**. They have the message there whether they go downtown or not. [Laughter.]

All right, thank you all very much.

[Whereupon, at 12:07 p.m., the subcommittee adjourned, subject to the call of the Chair.]

[The following letter containing additional information was received from Mr. Rich for inclusion in the record:]

ENVIRONMENTAL DEFENSE FUND

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March 11, 1986

The Honorable Stan Lundine
Chairman. Subcommittee on International
Development Institutions and Finance
Committee on Banking, Finance and
Urban Affairs
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Lundine,

I am writing to submit additional information for the record of the hearing held by your Subcommittee last February 26th on the environmental performance of the multilateral development banks. In particular, I wish to expand upon the comments in my prepared statement concerning the Inter-American Development Bank. This institution has made significant and promising steps towards instituting a functioning system of environmental review in the past six months, an important fact which was not sufficiently emphasized in most of the statements that were submitted to the Subcommittee.

Before going into detail concerning the IDB's recent environmental progress, it should be emphasized, however, that: 1) a comprehensive environmental review system is still not in place, despite encouraging steps in that direction; 2) only constant and continual scrutiny by the Subcommittee, the Treasury Department and the representatives of other member countries will ensure that the Bank's recent initiatives in the environmental area eventually result in a general improvement of project quality; 3) more forthright and substantive communications between the bank and and outside groups concerning its past and current approach to environmental matters would dispel public skepticism and concern that previous external communications of the bank on these issues over the past three years have created.

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The environmental progress of the IDB over the past six months has occurred in substantial part we believe because of the continual prodding and oversight of the U.S. Treasury and State Departments, but also because some of the bank's senior management now appear to be addressing environmental concerns with more initiative and concern than in the other MDBs. The principal existing environmental review entity in the IDB, the Committee on the Environment, has reviewed in depth a total of ten projects since its establishment in November, 1983. In one case, review by the Committee led to the Bank's dropping a proposed road project in Brazil from the project pipeline since it would have directly threatened a protected area financed by the World Bank in the same region. The U.S. Treasury Department has stated that the Committee's review of environmental aspects of these projects was "in almost all cases...thorough and well directed." However, it must be recalled that in the two year five month period of the Committee's existence over 160 projects have been approved by the IDB and that the majority of these projects were in environmentally sensitive sectors such as energy, agriculture and transportation.

It would appear then, that the Committee on the Environment has the potential to serve as a locus of high level accountability for environmental concerns and to review in depth a limited number of particularly sensitive projects. No mechanism currently exists, however, to ensure effective environmental review of the vast majority of IDB projects with potentially adverse environmental impacts, although a first important step was made late last year to begin to address this concern.

We recently learned that in October, 1985 the Manager of the Project Analysis Department--who is also the Chairman of the Committee on the Environment--circulated a memorandum to the Bank's technical and field offices which requires the identification of all projects both in execution and in preparation which may risk "significant environmental impacts." General categories of projects are listed which may incur such impacts (hydroelectric, irrigation etc.) and a set of sound environmental management standards are also set out which such projects are to meet.

This action is certainly deserving of praise, since it could be the first step in establishing a comprehensive system of environmental review in the IDB--something which does not exist in any of the other banks. Nevertheless, it must be emphasized that the directive of the Manager of the Project Analysis Department is so far only a promising beginning. Clearly, specialized environmental staff expertise will be needed in some instances to assist in both the identification of environmentally significant projects by the Projects Analysis Staff and to serve as advisors or consultants in helping to incorporate mitigatory measures into such projects or to redesign them once they are identified.

In other areas addressed by the Subcommittee's recommendations there are no substantive signs of improvement over the bank's past performance. The level of environmental staffing has not increased--a measure which we feel is essential to ensure the truly effective and continual functioning of the review process the Projects Analysis Department has initiated. In addition, short term environmental training courses for all bank technical and regional staff would contribute substantially to improving environmental aspects of IDB loans, especially since the bank itself has reiterated several times that it prefers a more 'holistic' approach to environmental review of projects which would involve all professional staff, and not just environmental specialists. Such training courses could be developed and implemented by the Employment and Development Division of the Administrative Department, which already administers training courses for bank staff in other disciplines. Although the bank has endorsed in principle the recommendations concerning greater involvement of ministries of the environment and public health in all phases of the project cycle, its November 21, 1985 submission to the Treasury Department does not present substantive evidence of progress in that area.

Although the IDB does have a Small Projects Program which provides small loans that are administered in some cases by non-governmental groups, it does not appear to be involving non-governmental groups more systematically in project planning and implementation. The Treasury Department's memorandum to the IDB on this issue last year noted that "the Treasury staff's review of bank projects over the last two years suggests that such organizations are not being systematically consulted. Project documents rarely refer to such organizations as sources of information for the project. Occasional conversations with bank project staff members suggest, as well, a general lack of informal contact with borrowing country conservation and indigenous peoples' organizations."

Similarly, the IDB in its November 19, 1985 response to the Treasury Department did not demonstrate any progress over past years in promoting a greater proportion of smaller scale, environmentally beneficial light capital technologies in its lending programs. In fact, to cite one example, among the multilateral banks it continues to channel a greater proportion of its lending into large scale, capital intensive energy projects, mainly giant hydroelectric schemes, than any other institution. A number of these large scale hydroelectric projects continue to encounter problems ensuing from inadequate incorporation of environmental concerns in their planning and execution.

A final problem concerns the way in which the MDBs, and particularly the IDB, are representing their efforts to improve their environmental performance to the outside world. Prior to the IDB's recent efforts to improve its environmental review procedures it had been issuing statements for years asserting that it incorporated systematically environmental concerns and mitigatory measures at the earliest stage into projects (see, for example, the bank publication "The Inter-American Development Bank and the Environment," May, 1983)--statements which were directly contradicted by numerous witnesses in more than a dozen Congressional hearings over the past two and one half years and put into question by a number of statements of representatives of other international organizations and the U.S. Treasury Department. For example, in June, 1985 the Director General of the United Nations Environment Programme sharply criticized the performance of the MDBs in making their environmental policies a reality. On September 19th, 1985 the Assistant Secretary of the Treasury for International Affairs stated before a Subcommittee of the United States Senate that "over the past two years we have found MDB [environmental] performance, on balance, inadequate....the problem boils down to the need to make the banks aware that environmental aspects of projects have to be systematically addressed."

It would be more to the credit of the IDB and the other banks if they would acknowledge forthrightly that there have been problems in the past and describe in the future more openly the concrete, specific, substantive measures and changes they are undertaking to remedy the situation while acknowledging that much still needs to be done.

Thank you very much Mr. Chairman for your consideration of, and inclusion for the record of these additional comments.

Sincerely,

Bruce M. Rich

Bruce M. Rich
Senior Attorney